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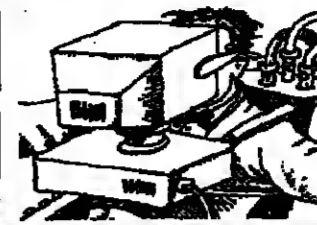
# FINANCIAL TIMES



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World Business Newspaper <http://www.ft.com> WEDNESDAY DECEMBER 18 1996

## Six Red Cross aid workers killed in Chechnya

The Red Cross froze operations in Chechnya yesterday after six of its aid workers - five of them women - were shot dead as they slept at a hospital compound in Novye Atagi, a village just south-west of the capital, Grozny. The victims came from Norway, the Netherlands, Canada, Spain and New Zealand. Both Chechen and Russian authorities condemned the attack, the motives for which were unclear. Page 7

**Deal with Berlusconi** Italy's centre-left government is to make concessions to the TV interests of opposition leader Silvio Berlusconi in return for his co-operation on key legislation. Page 2

**Telefónica takes Brazil stake** A consortium including Spain's Telefónica International became the first foreign group to take an operating stake in Brazil's public telephones when it paid R\$650m (\$650m) for a 35 per cent of southern operator CRT. Page 21

**EU ministers cautious on beef ban** European Union farm ministers cautiously welcomed Britain's decision to slaughter 100,000 extra cattle but warned that the worldwide ban on UK beef exports would not be lifted for a long time.

**Ex-PM to head election probe** Former Spanish prime minister Felipe Gonzalez is to head an investigation into disputed local elections in former Yugoslavia. Serbian president Slobodan Milosevic, under pressure over alleged election fraud, has offered to let the Organisation for Security and Co-operation in Europe investigate the polls. Page 2

**Military crash kills 17** A Russian military cargo aircraft crashed while taking off at Pskov airport in the north-west of the country, killing 17 people including the commander of the Leningrad district.

**UK ministers promote Iraq trade** The British government is encouraging UK companies to step up ties with Baghdad. Businesses need no longer get special permits to discuss contracts needed by Iraq for "essential civilian supplies and pipeline parts". Page 10

**Czech politician quits** Jan Kalvoda resigned as deputy premier and justice minister of the Czech Republic after admitting he had falsely claimed to hold a doctorate in law.

**Query on degree standards** Some British universities which "franchise" courses to other countries are not doing enough to ensure that the degrees awarded are up to standard, a UK education watchdog warned. Page 10

**Goldman Sachs** Wall Street's biggest investment bank partnership, set a new annual revenue record, though full-year taxable profits of \$2.61bn were just under 1995's. Page 21

**Fed holds interest rates** The US Federal Reserve held interest rates steady. That leaves federal funds at 5.25 per cent and the discount rate at 5 per cent. Housing starts, Page 7

**Diplomat sent home** A senior Honduran diplomat was sent home from Britain after allegations of involvement in fraudulent claims for over \$36,000 (\$39,970) of state welfare payments.

**US academic favours stocks crash** "A decent collapse in the stock market would be nice right now," according to Larry Kimball, director of the University of California, Los Angeles, Business Forecasting Project. He argues that a crash would probably do the US economy more good than harm. Page 7



The Bank of France cut its intervention rate to 3.5 per cent from 3.2 per cent. Bank governor Jean-Claude Trichet (above) said the cut reflected confidence in the franc. Page 26; Bundesbank firm, Page 2; Currencies, Page 29

**FT.com** the FT web site provides online news, comment and analysis at <http://www.ft.com>

Table with financial data including Stock Market Indices, US Lignite Rates, and Other Rates.

Table with exchange rates for various currencies like the Pound, Dollar, and Yen.

## US to urge cut in phone charges

### Regulator seeks ceiling on how much foreign carriers are paid for connections

By Nancy Dunne in Washington and Frances Williams in Geneva

The US is today expected to step up sharply its drive to lower the cost of international phone calls through a reduction in connection charges. The Federal Communications Commission, the US telecoms regulator, is to lobby governments and telephone companies around the world for a move towards rates based on cost.

Under proposed rules, the FCC will set a ceiling on how much US companies will pay

foreign carriers for handling US phone calls. This will mean that when US phone companies, such as AT&T, negotiate the rates foreign monopolies will charge for connecting international calls, there will be a limit to the level of the charges that can be agreed. The FCC believes this will force connection charges down. Its officials estimate that average international connection charges are currently three times cost.

Last month, the FCC adopted rules to permit US carriers to enter into "more economically efficient arrangements"

for connecting international traffic where competition exists at the other end of the phone line. US companies operate in a competitive environment, with costs and prices much lower than those of foreign competitors that operate as monopolies. However, they say they have little leverage in negotiations and must accept the rates set by foreign monopolies.

The proposed rules will pose four sets of questions to be answered by industry and governments. Charge benchmarks for individual countries will be

proposed, but the FCC will ask how these ceilings should be established.

It also will ask how long monopolies should be given before arriving at the benchmark rates, whether this should differ according to a country's level of development and if it is moving towards market liberalisation.

The FCC will also ask whether the ceilings should be mandatory or used as guidelines and whether US market access for a foreign company should depend on whether its settlement rates are at the benchmark.

FCC officials have come to the conclusion that they have the authority to address competition, whether or not a World Trade Organisation telecommunications pact is reached on February 15.

The proposed rules have also given an important boost to the WTO talks. Washington caused the negotiations to founder last April by, among other things, insisting on retaining the FCC's "equal competitive opportunities" (eco) test for foreign operators wishing to enter the US market.

Pressed by AT&T, the main

US international operator, Washington said the eco test was necessary to prevent "free-riding" by overseas monopolies able to charge high prices for connecting calls in their domestic markets. But trading partners said the test, which requires reciprocity, was incompatible with the WTO's cardinal principle of non-discrimination. The FCC's rate-setting scheme is designed to meet this objection while protecting US operators from unfair, by making the rules applicable to all applicants for a US operating licence.

## Mobutu hailed on return to Zaire



President Mobutu Sese Seko receives an enthusiastic welcome from supporters at Kinshasa airport as he returns to Zaire. The president is attempting to reassert his faltering authority and quell a rebellion on the country's eastern border. He has spent four months in Europe undergoing treatment for prostate cancer. Report, Page 20

## JSkyB plans 150 digital TV channels for Japan

By Michio Nakamoto in Tokyo and Raymond Snoddy in London

Plans to launch 150 channels of digital television in Japan from next year were announced yesterday by Mr Rupert Murdoch's News Corporation and Softbank, the Japanese computer software distributor and publisher.

The joint venture is an important part of Mr Murdoch's plans to take multi-channel digital television systems to many of the world's developed markets next year.

In 1997 alone, apart from Japan, Mr Murdoch is planning to launch digital television systems in the US, the UK and India to add to his digital operations in Latin America and Asia.

Mr Murdoch, chairman of News Corp, said last week: "Japan is the next major thrust. It has a large population with a lot of disposable income - more than Britain and America - who are keen to watch more television."

The Japanese joint venture, formally created on Monday and known as JSkyB, will happen in two stages: about 12 channels launched next autumn, and then 150 channels in April, 1998.

Mr Murdoch plans to offer



Murdoch: Japanese deal

satellite multi-channel service, PerfecTV, which began services in October, has signed up more than 100,000 subscribers in two months.

JSkyB hopes to be able to jolt with PerfecTV to allow consumers to receive programmes from both services with just one tuner and satellite dish. Eventually, JSkyB planned to offer broadcast services from three separate satellites and enable consumers to receive channels from all three with just one set-top box, Mr Murdoch said.

Fujitsu, the Japanese computer manufacturer, has tied up with WebTV Networks, the US company, to provide Internet access and on-line content on Japanese TV. The joint venture company will be 65 per cent owned by WebTV Networks and 35 per cent by Fujitsu. In addition to Internet access, the service will provide contents such as map-based information services and an online magazine. WebTV Networks is the developer of the leading on-line service to deliver the Internet through TV in the US. Fujitsu, a world leader in computers, semiconductors and telecommunications, has the largest consumer on-line service in Japan, NIFTY-Serve.

The first Japanese digital, French deal refused, Page 22

## Sandoz and Ciba win US merger approval

By David Green in London and William Holton in Basel

The US Federal Trade Commission yesterday approved the merger of Swiss pharmaceuticals companies Ciba and Sandoz but imposed stiff conditions.

The new group, Novartis, must offer other companies access to its promising patented generics and cancer technologies. To comply with FTC demands, it has already sold its North American corn herbicides business to Germany's BASF for \$695m and disposed of its flea and tick business for \$41m to Central Garden & Pet of the US.

Although analysts were pleased by the FTC approval, there was disappointment at the conditions. Ciba's shares fell \$2 to \$71.625, while Sandoz shed \$2 to \$71.535.

Their merger will be completed on December 23 when trading in Novartis shares begins. The last stage of the merger - the spin-off of Ciba Speciality Chemicals - should be completed by next March.

Novartis will become the joint biggest drug company in the world with Glaxo Wellcome, with global market share of 4.5 per cent on sales in the first nine months of 1996. Novartis also has businesses in agricultural sciences, nutrition and polymers. In 1995 it would have had sales of \$Fr38bn.

Continued on Page 20  
Clash of strategies, Page 25

## Germany stalls Brussels curb on loan guarantees

By Emma Tucker in Brussels and Andrew Fisher in Frankfurt

European Commission plans to stop governments giving illegal state aid to companies through loan guarantees has been stalled following German government pressure.

The draft rules, if implemented, could force Germany to restructure its large public sector banking system. The Landesbanken, or state banks, now enjoy effectively unlimited government backing. They have high credit ratings, in some cases triple A, because of their special status.

The draft rules could force them to compete on equal terms in the European Union's single market.

One bank arousing particular concern among private sector rivals is the largest regional bank, Westdeutsche Landesbank, which has expanded rapidly, exploiting its top credit rating. WestLB received a capital injection of DM4bn (\$2.5bn) through housing development funds in 1992. Other state banks have received funds this way.

German chancellor Helmut Kohl expressed concern about the proposed loan guarantee regulation in February when he met Mr Karel Van Miert, EU competition commissioner. The meeting also dealt with other sensitive state aid cases such as Bremer Vulkan, the troubled German shipyard.

Mr Kohl stressed to Mr Van

Miert the importance of the publicly owned savings bank network and its links with the Landesbanken. He argued that interference with this structure would undermine confidence in the banking system. This could affect the introduction of the single currency.

"It seems it is not enough to have the treaty on your side if a powerful member state starts to make threats," said one Brussels-based lawyer. Under EU rules, government guarantees on loans are potential state aid and should be reported to Brussels, but states have ignored the law.

The issue came to a head in 1993 over unlimited Italian government guarantees to Enim, the state holding group.

The Commission said granting an all-embracing guarantee on the debts of a business was "not the sort of transaction which a free market investor would normally undertake".

The case prompted concern among banks that existing contracts could be declared illegal and void. They pressed the Commission to clarify the legality of state guarantees.

Because of the German pressure, the draft rules have not been put forward to anyone outside the competition directorate. They say a guarantee does not contain state aid if it is limited in time and amount, and given to a financially sound company which must pay a premium for it.

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## International community promises support as part of plan to stimulate growth

# West pledges Ukraine \$2.4bn

By Matthew Karninski in Kiev

Western governments and institutions yesterday pledged Ukraine \$2.4bn in loans next year to finance a higher budget deficit as part of an ambitious plan to stimulate growth.

The western support, which was finalised at a meeting in Washington, comes at a politically tense time in Kiev as parliament considers the government's proposals for a tax cut, a deregulation package, pension reform and the 1997 budget.

A senior US government official said the international

community was ready to "support the important reform programme" with \$5bn in the next three years. Yesterday's meeting was "the last piece of the pie".

The International Monetary Fund said yesterday western governments had nearly covered Ukraine's needs next year with pledges of more than \$600m. The IMF agreed to give more than the \$1bn originally planned as did the World Bank, now down for \$750m in loans. Trade credits worth \$1.1bn were separately pledged.

The assistance can not be accessed until parliament

approves the legislative package and the budget. But, Mr Victor Pynzanyk, deputy prime minister who led the Ukrainian delegation in Washington yesterday, said the proposals were "some of the most far reaching in the region" and predicted swift parliamentary approval since "no one has any other choice". The planned reduction in tax rates and easing of government oversight of private business activity is aimed at reversing the 10 per cent gross domestic product drop in the first nine months by next year.

The expected decrease in revenues last month led the

government to raise the 1997 fiscal deficit from 2.3 per cent to 4 per cent, roughly half of which will be financed by the west. Ukraine also needs western support for foreign debt payments of \$1.4bn that are due next year. Gross financing needs in 1997 are \$3bn, according to the IMF.

The growth stimulation measures are meant to consolidate Ukraine's recent achievements in keeping monthly inflation under 3 per cent and stabilising the currency.

The European Union confirmed last week the second tranche of its Ecu200m 1996

balance of payments support loan would not be released this year, as planned, after the Kiev government last month imposed new import duties and did not remove export duties on livestock and hides and skins.

Some doubt was cast over Mr Leonid Kuchma's commitment to reform earlier this week when Mr Anatoly Halchinsky returned as the president's chief economic adviser. Mr Halchinsky, dismissed from the same post last year, stood behind the president's softening on reform that eventually caused a rift with the IMF in 1995.

## Juppé pins hopes on book

By Andrew Jack in Paris

France's prime minister has resorted to a new tactic in his battle to improve his flagging popularity - speaking directly to the people over the heads of the media.

Mr Alain Juppé has written a book, apparently the first published by a French prime minister in office, designed to defend his policies and reveal the softer side of his personality.

In just over 100 pages, *Entre nous* (Between us) - attempts to portray a sensitive, emotional man unfairly attacked by the press over 18 months in office, a leader with his feet firmly planted on the ground in spite of his computer-inspired nickname "Amstrad".

The book, priced at FF459 (\$6.82) with an initial print-run of 50,000, was prepared in great secrecy. It was written in just over a month - Mr Juppé called the publisher in late October - and was updated after the December 3 bombing of a Parisian commuter train, which he says left him angry, and determined to fight "with all my force, all my heart". The publisher, NIL Editions, is a small Paris-based company launched two years ago and which produced two electoral pamphlets issued by Mr Juppé's fellow Gaullist, President Jacques Chirac, as well as the best-selling books on southern France by Englishman Peter Mayle.

The prime minister says he loves power - "the effective power to resolve a problem." Answering charges of an elitist manner, he stresses that he worked hard to achieve his qualifications and did not come from an aristocratic family.

He calls the proposed single European currency the "only way for our children to work in a region protected from international financial speculation, with equal chances against the dollar." Observer, Page 19



Mitterrand's monument; France's new national library in Paris has four L-shaped towers symbolising open books.

## Bibliothèque makes towering debut

By Andrew Jack in Paris

President Jacques Chirac yesterday inaugurated the public sections of the Bibliothèque Nationale de France, the country's monumental new national library which has been shrouded in controversy since the project was launched in 1988.

The building, which stretches over seven hectares and has four L-shaped towers symbolising open books, cost nearly FF25bn (\$1.5bn) to complete and has been subject to delays.

From Friday the public will be able to gain access to books on open stacks, as well as magazines and newspapers, while films and other audio-visual materials can be examined on computer screens.

They will be charged FF20 a day or FF200 a year for access - with reductions for students and those on low incomes - making a small contribution to annual operating costs estimated to run to FF12m.

The entire library was scheduled to open last October, and former Socialist President François Mitterrand, who died in January and originally announced its construction, had already inaugurated the building once last year. Academic researchers will not now have access to the parts of the library designed for them until 1998.

Amid intense debate, the decision was recently taken to name the new site Bibliothèque François Mitterrand, although staff stressed

yesterday that the overall institution, which includes the existing historic national library building in central Paris, would retain the name Bibliothèque Nationale de France.

Mr Jacques Attali, the former adviser to President Mitterrand, had originally proposed an ambitious "virtual" library, with all existing collections stored and accessible in electronic form, but the plan had to be abandoned after concerns were raised over the cost and practicality.

The towers were designed to be transparent, but are now covered in wooden shutters, in response to fears of the damaging effect of sunlight on the books stored inside.

Ecologists complained

about the artificial garden, containing trees transplanted when they were already fully grown, and the tropical wood from Gabon which lines much of the interior.

There have also been concerns in the local community.

The library is supposed to be the centrepiece of a wide-ranging redevelopment of parts of the 18th arrondissement of Paris along the River Seine.

But at present it stands isolated in the middle of a construction site, at the centre of a debate by local residents concerned about the destruction of their community, and many dozens of artists whose studios in an adjacent building are under threat.

## Issing warns on euro and competitiveness Bundesbank stays firm on short-term rates

By Andrew Fisher and Peter Norman in Frankfurt

Mr Otnar Issing, a senior director of the Bundesbank, has warned against making the European single currency an instrument for boosting trade competitiveness as this would undermine attempts to keep the euro stable.

Mr Issing, a member of the German central bank's policymaking council, said European economic and monetary union would have powerful implications for wage policies in the euro area because excessive pay deals would immediately have a negative impact on employment.

In an interview with the Financial Times, Mr Issing said the real dimensions of Emu were becoming clear to more people as the planned starting date of January 1 1999 approached.

"History does not end when Emu starts, as people are gradually realising," he said.

He emphasised that the single currency would cause fundamental changes in the conduct of economic fiscal and monetary policy in Emu countries. The impact would be felt well beyond the currency arena. "There will be no exchange rate freedom and there will be an independent central bank with the obligation to pursue price stability."

Mr Issing strongly opposed suggestions that the euro should be kept relatively low against other important world currencies to help companies' business abroad. "You can't promise a weak euro to exporting industry and a strong euro to savers. The euro should not be seen as a mechanism for promoting exports. That will not do."

Although he did not identify those who had expressed such views, some French politicians and bankers, as well as German businessmen, have indicated their support for an internationally competitive euro to help exporters.

Mr Issing said, however, this would work against the efforts of those striving to build up confidence in the new currency.

"You can't talk down the euro for the purpose of using the joint currency as a weapon in world trade. The option of making the currency soft through lax monetary policy is not available in the treaty - the ECB [European Central Bank] is not allowed to do this - and this would not help if inflation in the euro zone were then to rise."

He was equally outspoken about the need to guard against irresponsible wage policies in the future Emu zone. "Currency union will have consequences for wage policy," he added.

"Mistakes in wage policy will have an immediate effect on employment. Not everyone is aware of this. But people will have to learn this very fast."

The impact of high wage rates could not be offset by exchange rate devaluations or be accommodated by the ECB.

"Those who expect a stable common currency in Europe with an independent central bank that does not bow to pressure must also expect wages to come under the same influence," Mr Issing said.

As the institution charged with maintaining the euro's stability, the ECB would need a strategy "that acts as a pre-commitment to the public."

This would involve, above all, a monetary policy based on money supply indicators. The ECB should augment its money supply policy with forecasts on price trends.

"I propose a clear hierarchy of indicators," Mr Issing said. "For us [in the Bundesbank] money supply is the most important. Then, some way behind, come such important factors as exchange rates and price trends, labour unit costs and so on."

He said he did not favour inflation targeting as practised by the Bank of England because this was a "second best solution".

Fears over Emu, Page 18

By Peter Norman

The Bundesbank yesterday rejected suggestions that it should cut short-term interest rates to give Germany's sluggish economic recovery a boost.

In remarks anticipating a decision not to change borrowing costs at tomorrow's meeting of its decision-making central council, the bank took issue with opposition politicians who have urged a more aggressive monetary policy to stimulate the economy.

In its latest monthly report, the bank warned that a "short-termist" rate cut would raise the risk premium on long-term interest rates and increase the danger of speculative disruptions on financial markets. Noting that the control of inflation was a permanent obligation, the bank said it would be wrong to cut rates because Germany currently enjoyed price stability.

The Bundesbank warned that economic growth and a strong export performance in recent months did not mean Germany had solved its problems. Weak business investment and rising unemployment pointed to the need for moderate and flexible wage settlements and lower taxes, especially for the company sector.

Mr Theo Waigel, finance minister, yesterday reaffirmed the government's goal of cutting Germany's income and corporation tax rates to competitive levels so that advanced industries such as cars, chemicals and computers would no longer invest outside Germany for tax reasons.

Promising the government's special commission on income and corporation tax reform would complete its work by end-January, Mr Waigel said his aim was to bring top tax rates below 40 per cent and create scope for "thousands and thousands" of small and medium-sized companies to grow.

Speaking in Munich yesterday, the minister said economic models based on the early outlines of the planned tax reform suggested it would boost real economic growth by about 0.5 percentage points and add up to 1.5 points to investment growth rates. The government aim is to reform the income and corporation tax systems from January 1999.

Mr Waigel said he intended to prepare the reform so thoroughly by the end of next month that political decisions could be taken immediately and a start be made to turning the policy into legislation early next year.

# TEN RESOLUTIONS KEPT IN IRELAND IN 1996.

- 1 AMERICAN AIRLINES  
The world's largest airline recruited 260 multilingual staff at its first Pan-European reservations centre.
- 2 BERTELSMANN  
The German media giant set up a customer and technical support project through its joint venture with AOL to provide online services, while its Sonopress subsidiary expanded its CD production facility.
- 3 CITIBANK  
As part of its global strategy to take it into the next century, Citibank chose Ireland for its 1000-person European processing centre for securities, trade and cash operations.
- 4 GEA  
The German leader in energy, environmental and process technology made Ireland its world centre for applications software and process systems design.
- 5 HEWLETT-PACKARD  
Hewlett Packard added its second major plant in two years - manufacturing print-heads - bringing total investment to over US\$500 million and total jobs to over 2000.
- 6 IBM  
IBM selected Ireland for investment of US\$350 million in a strategic, advanced electronics campus to employ nearly 3000 after setting up a world-wide PC customer support centre earlier this year.
- 7 JOHNSON & JOHNSON  
Johnson & Johnson announced its fourth Irish facility - a US\$50 million manufacturing and technical support centre for orthopaedic parts. The company's Vistakon disposable contact lens plant, began production and employs 200 people.
- 8 EASTMAN KODAK  
The largest maker of photographic products in the world launched Europe's first recordable CD manufacturing plant; a second project to manufacture film was also announced.
- 9 ORACLE  
The second largest software company in the world expanded its operations by adding a 400-person centre to sell information management software products.
- 10 SANDOZ  
The Swiss pharmaceutical giant unveiled plans to invest a further US\$80 million in manufacturing capacity.

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NEWS: INTERNATIONAL

# Moscow will take 'appropriate measures' if the Taliban forces push further north, says envoy Russia warns of Afghan intervention

By Mark Huband  
in Mazar-i-Sharif

Russian action to halt the advance of Islamic fundamentalism from Afghanistan into the central Asian states will become more overt if the forces of the Islamic Taliban movement pierce the buffer of Russian and Iranian-backed factions opposing the Islamists in northern Afghanistan.

"If Taliban came into the north there would be terrible bloodshed. And if our borders were under threat we would take appropriate measures," said Mr Nikolai Schevchenko, head of the Russian diplomatic delegation. The delegation has been based in the northern town of Mazar-i-Sharif since the seizure of Kabul by the Taliban in September.

"The Russian role in the region is inevitable," he said, specifying that Russia views its borders as those of its southern neighbours Uzbekistan, Tajikistan and Turkmenistan. "I believe that considering Taliban's actions and their ideology, that they are planning to come here, and we think their coming here would be a threat to the CIS," he said.

Seven years after the Soviet withdrawal from Afghanistan, the war-ravaged country is now more than ever the focus of regional rivalry.

"There's a trilateral alliance between Russia, India and a third state. None of

**'I believe that considering Taliban's actions and their ideology, that they are planning to come here . . . and we think their coming here would be a threat to the CIS'**  
Russian diplomat

**'It's basically an economic war that Russia and other powers are pursuing'**  
Pakistan's consul

these three powers wants a return of peace, because it's not in their economic interest," said Mr Umar Khan Alisherzai, Pakistan's consul general in Afghanistan, avoiding naming Iran as the third country involved.

"It's basically an economic war that Russia and other powers are pursuing. These Central Asian countries and northern Afghanistan are full of natural resources. Russia won't be able to exploit these resources, because it doesn't have the investment capability, and fears competition from the more technically developed economies of the west."

Russian officials are agreed that economics is central to the strategy being played by all the countries involved, though they claim that Russian technology and political presence will provide a balance between western interests and Iran's regional goals.

"Russia is consolidating itself, our main interest being to ensure that our allies in the region are safe," Mr Schevchenko says. "The trade routes to the Indian Ocean would be of great benefit to Russia. [The Russian gas company] Gazprom will play a major role in the gas pipeline from Turkmenistan, as technically all gas projects in Turkmenistan are based on Russian technology. And the involvement of [Russia] will act as a buffer against Iranian objections to western involvement in the project," he said.

Political backing for the Afghan factions has not diminished despite the launch of a new UN initiative to establish a ceasefire. Last week Mr Norbert Holl, UN special envoy to Afghanistan, launched a round of shuttle diplomacy, in an effort to achieve a ceasefire. For Pakistan, home to 2.5m Afghan refugees, the



wish to see a friendly government on its western frontier is paramount. Equally, it would like to see lucrative central Asian trade routes passing through Afghanistan via Pakistan to the Indian Ocean, potentially undermining Russian and Iranian influence.

Despite its close ties with Taliban, such direct interests have led Pakistan to remain on reasonable terms with the northern faction leader General Abdul Rashid Dostum, allegedly supported by Russia and Iran.

"Pakistan has a declared enemy on one side, and cannot have another enemy on the other," said a senior Pakistani military source, going further than most Pakistani officials in acknowledging Pakistan's support for the Taliban.

"There is a convergence of interests between Taliban and Pakistan, as the Taliban want to keep this country

united. At the moment it's a military situation," the official said. "It's unfair to judge the Taliban by the current situation. These are very warlike, uneducated people. They are very violent. In order to ensure law and order where there is no police, something different from the normal practices may be successful."

Iran, ruled by a Shia Muslim clerical regime, has played the most active role in forging the alliance against the Sunni Taliban, encouraging the factions led by Gen Dostum and Gen Ahmed Shah Massoud to unite in creating the committee for the defence of Afghanistan in the north of the country.

Cargo flights of the Dostum-owned Balkh Air fly regularly from Mazar-i-Sharif to Mazarand, in eastern Iran, aviation officials in Mazar-i-Sharif confirmed. Diplomats close to the all-

iance have confirmed that weapons supplies are coming from Iran. At least one intelligence service in the region says chemical weapons have been acquired by the northern factions.

Rivalry over Afghanistan has adversely affected traditionally good relations between Iran and Pakistan. Pakistani officials were incensed that Iran recently tried to bring India - which has close ties with Gen Massoud - into the regional equation, by including it in talks on the Afghan conflict in Tehran.

Iran has an ancient rivalry with the Pashtun Afghans from which Taliban is drawn, and is concerned that the Sunni Taliban may dilute Iranian Shia dominance of the Islamic revival. "Since Iranians are very narrow-minded, they are envious of other peoples' success," said Mr Amir Khan Motaqi, Taliban's acting minister for information and culture in Kabul.

US officials deny their tacit acceptance of Taliban stems from Iran's opposition to the new regime in Kabul. But as US and Pakistani interests coincide, the US need do little more than have its ally pursue policy on its behalf, avoiding the thorny issue of Taliban's principles, about which Pakistan has no illusions.

"Very few of the leaders in Afghanistan have struggled for principles," said a senior Pakistani official. "They are struggling for power. So a nation hied, and is still bleeding."

INTERNATIONAL NEWS DIGEST

## Battle spreads in Mogadishu

A fresh eruption of violence in Mogadishu, the Somali capital, spread yesterday when another large faction joined the fighting, which has killed more than 135 people and wounded 900 in five days. Militiamen under Ali Mahdi Mohamed, leader of a north Mogadishu alliance, shelled Hussein Aided's "presidential" palace and other positions held by his forces.

All Mahdi's four-wheel-drive "battlevagons", fired cannons at a road junction in south Mogadishu, near the closed airport and residential areas. Hussein Aided's gunners fired mortar bombs into north Mogadishu in retaliation.

The latest round of violence erupted last Friday, and has killed more than 135 people. *Reuters, Mogadishu*

## Tunisia curbs Israel links

Tunisia yesterday became the latest country to put its relations with Israel on hold, blaming the Israeli government's failure to implement agreements signed with the Palestinians. Mr Habib Ben Yahia, Tunisia's foreign minister, told parliament that Israel's settlements policies were in violation of the Oslo peace accord.

Tunisia and Israel established interest section offices earlier this year. Trade is minimal but Israeli officials said it represented a psychological blow for Israel's attempts to normalise relations with the countries of North Africa.

There is also concern about the level of relations with Morocco, which has close ties with Israel and a liaison office in Tel Aviv. Israeli officials said there have been no high-level visits or invitations to Morocco since the election of Mr Benjamin Netanyahu as prime minister last May. Oman and Qatar also recently froze their relations with Israel. *Judy Dempsey, Jerusalem*

## UN awards Kuwait \$610m

The United Nations body for Gulf war reparations yesterday awarded \$610m to the Kuwait Oil Company for quenching some 700 oil well fires started by retreating Iraqi troops in 1991.

The UN Compensation Commission accepted the recommendations of a three-man arbitration panel that these were the verifiable costs of putting the fires out. The company, which put in a claim for \$851m, had \$3m disallowed, and was told to resubmit the rest as claims for loss of and damage to property. *Frances Williams, Geneva Commodities, Page 30*

## Lebanon gets \$3bn aid pledge

More than \$3bn of official aid was pledged to Lebanon at a US-brokered donors' conference, the Lebanese government has announced. Officials said more than \$1bn was available immediately and a further \$2.2bn would finance projects over several years. France, the European Union and the World Bank will be among the largest contributors.

Mr Rafiq Hariri, prime minister and architect of Lebanon's reconstruction programme, proposed at the conference 31 projects worth \$5bn and asked for an additional \$1bn in loan guarantees. But the sums pledged went beyond Beirut's expectations, and were hailed as a vote of confidence in Lebanon's reconstruction programme. Lebanese officials said a large part would be in the form of soft loans, which will lower the government's borrowing costs. *Roula Khalaf, London*

# Moslem vigilantes in Cape Town clashes

By Roger Matthews  
in Johannesburg

The South African government warned anti-crime protesters yesterday that it would not tolerate further illegal demonstrations, after serious clashes with police in Cape Town which led to exchanges of gunfire and at least 11 people wounded.

The fighting marked a serious worsening in relations between the police and People Against Gangsterism and Drugs (Pagad), the mainly Moslem organisation which sprang to prominence in August when it shot dead and then set alight one of Cape Town's most notorious gang leaders.

Pagad has accused the government of not doing

enough to combat crime, and the police of being corrupt. During the past four months it has staged repeated marches on the homes of suspected drugs dealers, and has several times clashed with police.

On Monday afternoon running battles broke out at Cape Town airport with police firing teargas and rubber bullets after Pagad

defied a ban on holding a rally. The clashes worsened early yesterday when police claimed Pagad members opened fire while attempting to storm a court building where emergency applications for bail were being heard for people arrested earlier in the day.

A police spokesman said seven officers had been wounded by gunfire, two of

them seriously. Mr Sydney Mufamadi, the minister for safety and security, accused Pagad of acting with total disregard for the law, and said this would not be tolerated. The police were being forced to spend large sums monitoring Pagad rallies which should be spent fighting crime, he said.

Provincial officials also deplored the violence and

the damage it would cause to Cape Town, which is South Africa's premier tourist destination and is bidding to stage the 2004 Olympics.

Police said no further talks would be held with Pagad because it had confused fighting crime with causing crime. "Pagad has degenerated into just another gang, and will be treated as such," said a spokesman.

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contracts

BAR

# Nigeria sues Italians in gas dispute

By Paul Adams in London and John Siskins in Milan

Nigeria's Liquefied Natural Gas company is suing Enel, the Italian state electricity utility, for pulling out of a contract to buy 15bn of Nigerian gas over 20 years. Enel had contracted to buy 8.5bn cubic metres of gas a year, half the output of Nigeria LNG's \$3.5bn plant at Bonny, near Port Harcourt, due to start production in 1999.

Enel claims there is a force majeure clause allowing obligations to drop should parties be prevented from going ahead. It said it had to withdraw because a decision not

to build an LNG terminal at Montalto di Castro on the Tuscan coast meant the project was no longer economic. It said the environmental conditions attached to building the terminal put the Montalto investment in jeopardy. The cost of unloading the gas in open sea was one of the obstacles.

Enel said: "We are negotiating with Nigeria LNG in order to find the best way of limiting damage arising from this situation." The project has been beset by political difficulties since first mooted in the 1960s but was revived when Shell took control in 1994. The shareholders took the final investment decision late last year in the teeth of international condemnation of the Nigerian military regime for executing one of its leading critics, Ken Saro Wiwa.

The rest of the gas is to be sold to utilities in France, Spain and Turkey. The LNG project is vital to Nigeria's exploitation of its vast natural gas resources, much of which is burned off

as a by-product of oil production, and important to Shell's attempt to improve its environmental record in Nigeria. The project would earn about \$1bn a year in exports from early next decade and could lead to more gas developments.

WORLD TRADE NEWS DIGEST

## GE in China power deal

GE Capital, a subsidiary of General Electric of the US, yesterday signed a \$250m agreement with the Shanghai power bureau to upgrade and operate a 400MW gas turbine power plant. Mr Peter Geldart, managing director of GE Capital Asia Pacific, described the agreement as a "milestone" and said it was the "first long-term, non-guaranteed commercially financed power project in China". A consortium of foreign banks led by Standard Chartered arranged a \$124m loan for the project without Chinese sovereign guarantees, a stumbling block for other power projects. Mr Gareth Bullock, head of corporate banking at SCB, said financing was the "first non-recourse commercial loan for a power project in China." The project is being funded with 30 per cent equity and 70 per cent loans. Mr Geldart said GE, which is supplying four gas turbines, had gone ahead with the project because "we are dealing with a first-rate power bureau." The project also had the support of the Shanghai municipal government. GE Capital will hold 30 per cent equity and the Shanghai power bureau 70 per cent in the project which will run for 17 years under built-operate-transfer arrangements. *Tony Walker, Beijing*

## Mercosur plans regional bank

Mercosur, the four-nation Latin American trade grouping, yesterday announced plans to set up a development bank to provide capital for infrastructure projects in the region. Although details of the institution are still to be decided, officials said the bank would have a capital structure, credit facilities and rules of operation similar to other international financial institutions. The members of the customs union - Brazil, Argentina, Paraguay and Uruguay - also signed an agreement giving "associate" membership to Bolivia, which will also participate in the new financial institution. Bolivia becomes the second country to become an associate member of Mercosur, after Chile. *Geoff Dyer, Fortaleza*

## Swedes invest in east Europe

AssiDomán, the Swedish forest products group, is to invest \$30m in a new corrugated board plant in the Czech Republic, which it hopes will spearhead a drive into central and eastern Europe over the next three years. The plant, near Prague, will supply the German and Austrian markets as well as aiming for a 9 per cent share of the Czech market. Mr Lars Richardson, president of AssiDomán Packaging, said the plant would be a hub for a drive into Russia, Poland, the Baltic states, Slovakia and Hungary through new plants and acquisitions. The company is currently building a new box plant in St Petersburg. *Vincent Boland, Prague*

## Shell in Philippines deal

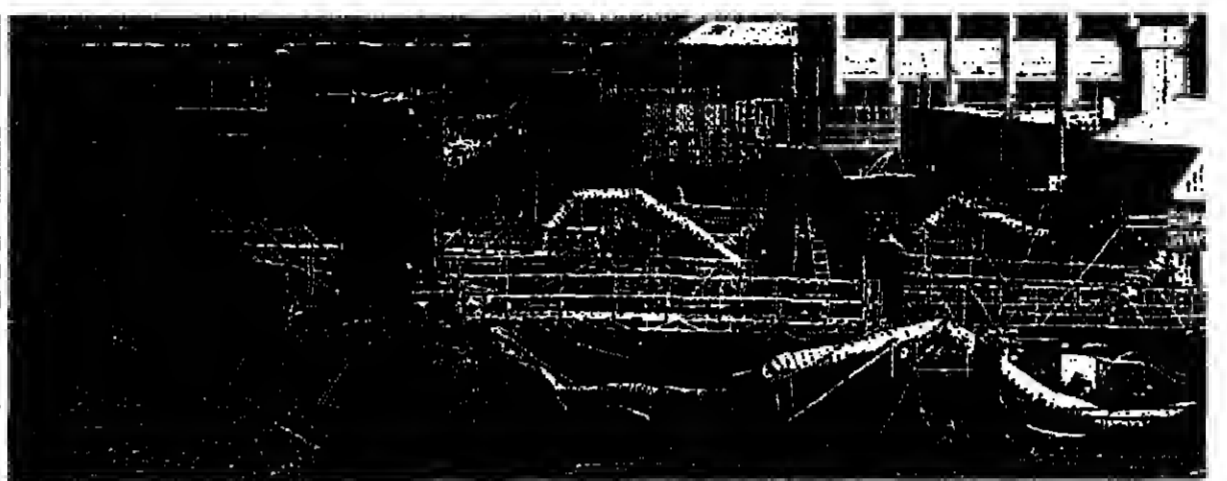
Pilipinas Shell, the Philippine subsidiary of the Anglo-Dutch oil group, has signed a two-year \$64m contract with the state-owned National Power Corporation (Napocor) to supply 6.5m litres of fuel oil and 6m litres of diesel a month. Napocor recently signed a contract with Petron Corporation and is expected to approve another with Caltes Philippines. *Justin Marozzi, Manila*

# Japan backs Three Gorges contracts

By Our Foreign Staff

Japan has agreed to provide financial support for companies bidding for the controversial Three Gorges dam project on China's Yangtze River. Kyodo, the Japanese national news agency, reported last night. Kyodo cited sources in the Ministry of International Trade and Industry as saying export credit insurance as well as loans from its Export-Import Bank would be available to fund the project which will displace more than 1m people and create a lake 600km long in Hubei province.

environmentalists. Kyodo said the Japanese government had decided the project would not cause environmental damage after conducting local surveys. Its enquiries had also shown that people who were displaced would be compensated.



Four Upholder submarines at VSEL in Barrow. They would help Canada to retain a significant naval capability. *Anthony Anderson*

# Special fuel cells may revive UK-Canada submarine deal

By Bernard Simon in Toronto

Canada has shown renewed interest in buying four almost new diesel-electric submarines from Britain. A deal for the Upholder class boats has been under negotiation for more than two years, and came close to being finalised last spring. But Mr Jean Chrétien, Canada's prime minister, has balked at a big military purchase when budget cuts have trimmed spending on social security and health. UK and Canadian officials expressed cautious optimism however, that the deal would be revived after the next general election in Canada, expected to be called within

the next nine months. Mr Doug Young, who recently took over as defence minister, said this month that as a member of Nato and Norad (North American Aerospace Defence Command) "we must decide if we can properly safeguard Canada's sovereignty with a navy composed solely of surface ships. . . If we allow our submarine capability to lapse, we would have great difficulty re-establishing it." The renewed Canadian interest has also been triggered by research at Ballard Power Systems, a Vancouver-based technology company, into the use of long-life fuel cells as a power plant for submarines. Ballard, which also makes

fuel cells for surface vehicles such as buses, delivered two test plants earlier this year to Howaldtswerke-Deutsche Werft, the German submarine builder. The cells, which convert hydrogen into electricity without combustion or pollution, would enable the Upholder boats to operate under ice. The Upholders are currently fitted with diesel-electric engines. A Ballard official declined comment on the company's role. Ballard recently got C\$30m (US\$23m) in financial support from the federal government to develop stationary power plants for hospitals, schools and factories. The four Upholders, which cost about \$1bn (\$1.64bn) to

build, were put up for sale after the Royal Navy opted for an all-nuclear submarine fleet in the early 1990s. Canada has been toying for some time with a replacement for its three 30-year-old Oberon boats. Other Nato members have urged Ottawa to buy the Upholders, which would allow Canada to maintain a significant naval presence in the alliance. The boats would also be used to train UK and US submarine crews. The UK has offered the boats to Canada at what it considers to be a bargain price of about C\$400m, with payments spread over 10 years, and part of the cost to be paid in the form of training for Royal Navy crews.

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<p>August 1996</p> <p>Westland Utrecht</p> <p>NLG 5,000,000,000 (increased from NLG 2,500,000,000)</p> <p>Euro Medium Term Note Programme</p> <p>Arranger and Dealer</p>	<p>August 1996</p> <p>YPE</p> <p>US\$ 125,000,000</p> <p>Specialised Term Loan</p> <p>Arranger and Agent</p>	<p>July 1996</p> <p>PHILIPS</p> <p>US\$ 150,000,000</p> <p>Multi-Currency Dual-Currency Export Securitisation Programme</p> <p>Arranger</p>	<p>July 1996</p> <p>IS CEMENT CORPORATION</p> <p>US\$ 127,000,000</p> <p>Initial Public Offering</p> <p>Global Co-ordinator</p>	<p>July 1996</p> <p>ESTRADA BANK</p> <p>US\$ 37,000,000</p> <p>One Year Pre-Export Trade Finance Facility</p> <p>Arranger and Agent</p>	<p>June 1996</p> <p>COFINEC</p> <p>1,950,983</p> <p>Global Depository Receipts</p> <p>Global Co-ordinator</p>	<p>June 1996</p> <p>DEMIRBANK</p> <p>US\$ 60,000,000</p> <p>Term Loan Facility</p> <p>Arranger</p>	<p>June 1996</p> <p>Gasoline</p> <p>NLG 1,000,000,000</p> <p>Commercial Paper Programme</p> <p>Arranger and Agent</p>
<p>May 21, 1996</p> <p>Luzon</p> <p>US\$ 1,386,343,421</p> <p>Advisor</p>	<p>May 1996</p> <p>ICA</p> <p>US\$ 150,000,000</p> <p>Global Medium Term Note Programme</p> <p>Lead Manager</p>	<p>May 1996</p> <p>MERT WAVE TELECOM INC.</p> <p>US\$ 290,000,000</p> <p>Series B Common Stock and Warrants</p> <p>Arranger</p>	<p>May 1996</p> <p>ORMAT LEYTE CO. LIMITED</p> <p>US\$ 43,500,000 Project Finance</p> <p>To finance the construction of a 49 MW geothermal independent power plant in the Philippines</p> <p>Arranger</p>	<p>May 1996</p> <p>ZTECOM</p> <p>US\$ 60,000,000 Medium Term Financing</p> <p>To finance the expansion of a telephone network in the Dominican Republic</p> <p>Arranger</p>	<p>April 1996</p> <p>CAP HOMES, INC.</p> <p>US\$ 62,000,000</p> <p>Secondary Placing</p> <p>Global Co-ordinator</p>	<p>April 1996</p> <p>MAGNETIC COMMUNICATIONS GROUP</p> <p>US\$ 200,000,000 Term Loan</p> <p>To finance the build-out and operation of cellular telephone networks in several emerging markets</p> <p>Arranger</p>	<p>April 1996</p> <p>PANHON GCSG</p> <p>US\$ 175,000,000 Term Loan</p> <p>To finance the roll-out of a GSM cellular network in Hungary</p> <p>Arranger</p>

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the whole world kin.

Shakespeare

I am not an Athenian or a  
Greek, but a citizen of the  
world.

Socrates

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the future for our youth,  
but we can build our youth  
for the future.

Franklin D. Roosevelt

By nature, men are nearly  
alike; by practice they get  
to be wide apart.

Confucius

The world is moving so fast  
these days that the man  
who says it can't be done is  
generally interrupted by  
someone doing it.

Elbert Hubbard

Treat the earth well. It was  
not given to you by your  
parents. It is lent to you by  
your children.

Kenyan proverb



Labour

Colombia

Handwritten text in Arabic script: "مكتبة ابن الجوزي"

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OPEL

# Clinton backs return of funds

By Jurek Martin in Washington

President Bill Clinton yesterday said his White-water legal defence fund was right to return more than \$600,000 in contributions from a Chinese-American acquaintance in Arkansas.

The president said he was unaware that Mr Charles Yeh Lin Tria, previously a restaurateur in Little Rock, had been raising money on his behalf before being advised by Mr Michael Cardozo, the fund's director.

Mr Clinton defended Mr Tria as a classic hardworking immigrant. But he added that "even any appearance of impropriety should be removed," which had been a concern of Mr Cardozo.

This is not the first time Mr Tria's name has cropped up in the political fundraising controversy. Earlier this year the Democratic National Committee returned a \$15,000 contribution from his trading com-

pany, having ascertained the source of the donation was from outside the US.

Mr Cardozo's announcement late on Monday is certain to heighten interest in the connections between Mr Clinton, his party and Asian business concerns. The Indonesian Lippo conglomerate previously employed Mr John Huang, the former commerce department official responsible for party fundraising, while its controlling Ruddy family got to know Mr Clinton while he was governor of Arkansas and has been invited to the White House.

The most immediate impact, however, is on the defence fund itself. The \$639,000 donated by Mr Tria comprises about a third of the amount raised to date to offset the First Family's mounting legal costs, now believed to run into several million dollars.

This is well beyond the Clintons' known personal assets. They have required

legal advice not merely to handle the several White-water-related probes but also the sexual harassment suit brought by Ms Paula Jones against Mr Clinton.

The Clintons' financial plight is commonplace in Washington, where several officials from the Clinton and Bush administrations, ranging from Ms Janet Mullins, political director in the Bush White House, to Ms Margaret Williams, chief of staff to Mrs Hillary Clinton, have incurred legal bills far exceeding their salaries and assets.

Ms Mullins was eventually exonerated by a special investigator for allegedly having taken part in the state department's alleged search of Mr Clinton's passport records during the 1992 campaign and has received partial financial recompense.

Even Mr George Stephanopoulos, the soon-to-depart senior aide to Mr Clinton, has estimated he has run up \$70,000 in affidavit and other



Clinton: 'appearance of impropriety should be removed'

# Lower loan rates lift US housing starts

By Gerard Baker in Washington

US housing starts jumped by 9.2 per cent in November from a month earlier, following declines in the previous two months, the commerce department reported yesterday.

The increase, to a seasonally adjusted annual rate of 1.51m, was the biggest since July 1995, and followed other recent evidence of a slight quickening in the US economic pulse towards the end of 1996.

The drop in housing starts in September and October had been widely seen as evidence that the economy was losing steam after its strong growth in the first half of the year. New housing con-

struction accelerated gradually through early 1996 and hit a peak in August, before falling back in the autumn.

But yesterday's figure suggests demand may have revived somewhat last month, helped by a steep fall in mortgage rates over the last few months.

The news troubled the bond market, as it came on the day the Federal Reserve's open markets committee met to discuss interest rate policy.

The benchmark 30-year treasury bond fell by 1/8 shortly after the figures were published, raising the yield to 6.68 per cent.

The Fed, however, as widely expected, left rates unchanged at yesterday's meeting, although further

evidence of strengthening in the economy over the next few months could force it to tighten policy in the first half of 1997.

Regionally, the strongest increase in house building last month occurred in the Midwest, where housing starts leaped 21 per cent from a month earlier. There was also impressive growth in the south, while the north-east and the west remained flat.

Nationwide, single family housing starts rose 7.6 per cent, while multi-family construction increased 15.1 per cent. Building permits for house construction, a useful guide to future building trends, increased 3.9 per cent in November, the largest gain for a year.

# Market crash 'would benefit US economy'

By Christopher Parkes in Los Angeles

A US stock market collapse would probably do the US economy more good than harm, according to the latest forecast from the University of California, Los Angeles.

Long-term interest rates would fall quickly, extending the rally in the bond market and setting the stage for strengthening in the construction market.

Lower mortgage costs could translate into higher home prices, which would lessen the impact on consumer wealth. The chance to buy equities with better yields might even please fund managers and long-term individual investors.

"A decent collapse in the stock market would be nice right now," wrote Mr Larry Kimball, director of the UCLA Business Forecasting Project, in the school's quarterly report. "We need a break for a change."

Mr Kimball was respond-

ing to recent gentle warnings of "irrational exuberance" from Mr Alan Greenspan, head of the Federal Reserve, and noted the hint was a reminder "that there is no such thing as letting the air out gently" from a speculative bubble.

However, a 36 per cent stock market decline - as experienced between late August and October in 1987 - would still leave the Dow Jones Industrial Average index almost 2.5 times higher than the low point reached in that collapse.

According to Mr Kimball's report, the slow pace of the current bout of expansion suggests it could be one of the longest in recent history, exceeding the record set between 1961 and 1969.

"We do not deserve a recession since we do not have an acceleration of inflation to reverse," he wrote.

There was no need for inventory corrections, the residential and non-residential construction sectors had not over-built, and real con-

sumption spending was in line with real gains in disposable incomes.

Real growth in gross domestic product slowed from an "unsustainable" 4.7 per cent to a "healthy" 2 per cent in the third quarter, and the economy was expected to return to its trend growth rate in the mid-2 per cent range.

"The first successful soft landing of the US economy continues," the report added.

Meanwhile, the local Californian economy is generating new jobs faster than in the country as a whole, and employment in manufacturing is growing, in contrast to an overall decline.

In the four quarters to the end of September the state added 70,000 manufacturing jobs while the nation lost 170,000, the report said.

In the next three years, California - which accounts for 12 per cent of the US population - will create more than 15 per cent of the projected national employment increase of 6.2m.

# Labour reform test for Menem

Doubts surround proposed changes, write Stephen Fidler and David Pilling

President Carlos Menem of Argentina won re-election last year after a campaign pledge to "pulverise" unemployment. Since then he has blamed the country's rigid labour laws for keeping the jobless rate higher than it should be.

Yet while proposed labour law reforms now before Congress are intended to address this problem, there are strong doubts in Buenos Aires that the proposed changes will have much short-term impact on the jobless total.

Unemployment has risen consistently in the 1990s, despite rapid economic growth in the early part of the decade. But it surged during last year's recession and reached, according to government figures, a peak of 18.4 per cent in May that year. This has since fallen slightly - to 17.3 per cent - according to figures released at the weekend. But about 2.4m people are still out of work, three times the number in 1991.

This is damaging Mr Menem's popularity and his rating has sunk in opinion polls, which also show that joblessness is widely perceived as the country's main problem. A recent poll showed 48 per cent of people viewed unemployment as a priority, with 19 per cent seeing corruption as the greatest concern.

The labour market reforms would do three things: encourage decentralised collective bargaining; change the system for redundancy payments to create individual and worker accounts; and alter the health insurance regime to avoid what for many employers is a double payment.

The government has already decreed changes to the health insurance system that will next year introduce

competition from private sector health organisations to the trade unions that run the current system. The other two reforms await congressional approval.

Mr Carlos Rodriguez, adviser to the economy ministry, argues that the labour reforms are "very important". He adds, however, that flexibility has improved significantly in recent years thanks in part to changes already made to labour laws.

pass - but with modifications to make them more acceptable to the party's trade union supporters. Such a compromise, which may include a transition period for some aspects of the legislation, is now said to be under negotiation with the unions.

But even if the reforms are not watered down, their ability to ease unemployment quickly is doubted.

Mr Mario Vicens of the

complete labour flexibility regime. The country's unemployment figures - unlike those, for example, in Mexico and Brazil - include the informal economy, which by most estimates accounts for 40-50 per cent of Argentine employment.

Mr Rosendo Fraga, a political analyst, says unemployment in the formal economy is running at about 8 per cent. However, if the economy continues to grow, the informal economy should generate more jobs than most economists think.

But even if the legislation encourages the movement of more workers into the formal economy, it will not have much effect on the jobless total.

Ms Debora Giorgi, partner at the Alpha economy and business consultancy in Buenos Aires, says the current rules on worker dismissal are not, in any case, a significant cost for large companies.

Previous legislation has already provided greater flexibility to small and medium-sized companies that generate most employment in the economy: 73 per cent of workers are employed by businesses with fewer than 50 people.

These businesses increased their use of labour between 1984 and 1994, but, given low labour productivity, are likely to try to become more capital intensive as they gain access to capital during the economic recovery. This suggests they will not create many jobs as the economy grows next year, she says.

However, she believes the collective bargaining reform would be an important change, albeit one that would benefit existing companies, some of which have labour contracts in force since the mid-1970s, rather than new investors which

are able to negotiate contracts on arrival.

"This change could reduce by 15 per cent the labour costs of the telephone and electricity companies," she says.

Many economists say the main disincentive to hiring new workers in the formal economy is Argentina's payroll tax, which with other levies adds an average 41 per cent to labour costs over and above salaries.

Although the government has often expressed a wish to reduce the payroll tax, it is one of a few important taxes that central government does not have to share with the provinces, which now account for half government spending.

At a time of budget stringency, abolishing the payroll tax is likely to take second place to financial necessity.

## Argentina: Jobless total stays high



"The labour market is already completely different from what it was in the 1980s. But whatever we do to help unemployment is important. If we have an instrument, we have to try to use it because unemployment has to come down."

However, further labour reform is tricky for Mr Menem's Peronist party, since much of the legislation dates back to the era of former president Juan Peron.

According to Mr Antonio Cafiero, a Peronist senator, the proposed reforms should

economic consultancy Macroeconomica says: "In the short term it would make little difference in helping bring about a fall in unemployment, a problem that's related to the level of economic activity in Argentina."

The main impact of the law over time would be to bring a greater portion of the workforce into the formal sector, he says.

Indeed, the impact of the measures is expected to be limited by the size of the black economy - where com-

# Timothy Ross on a steady increase in domestic addicts

## Colombia in heroin's grip

After years of lucrative criminal exports, heroin addiction is turning into a domestic problem in Colombia. Long ignored, use of locally produced, high-purity heroin has reached a level which one doctor describes as "a grave public health problem".

The government has begun to recognise the seriousness of the problem and earlier this month in Medellin sponsored the first Colombian conference on heroin use.

The conference was financed by the government national drugs directorate to prepare key health-care workers for what is feared will soon be a new drug epidemic. Experts from Spain, Colombia and Chile addressed more than 80 doctors, psychiatrists, social workers and therapists.

The signs of opium-related abuse have been growing rapidly over the past three years.

The country's first attempts at commercial opium farming date back to 1978, when two Mexicans distributed poppy seeds to peasant farmers in Cauca and Huila departments and bought their harvests of raw

Mr Carlos Lemos Simmonds, Colombia's new vice-president, said yesterday that a landmark law aimed at bankrupting the nation's millionaire drug barons should make the US rethink its policy towards the country.

He said Colombia would reap huge benefits from the new measure, but added that Washington should also look to its own backyard in its war against drugs.

optium gum. By 1984 locally made heroin analysed in the Bogota toxicology clinic tested at more than 85 per cent purity and was being exported through traditional cocaine smuggling routes to the US.

Leaders of the Cali drugs cartel pioneered large-scale heroin production in a shifting alliance with leftwing guerrillas, and brought in Sicilian, Afghan and Asian heroin chemists to improve refining techniques.

Recent samples have tested at 94-96 per cent purity.

Small amounts of opium, morphine and heroin began to slip on to local markets, mostly bought by wealthy drug users. Cases of heroin

addiction began to appear in the late 1980s, and in 1993 the first heroin overdose death was reported.

Dr Camilo Uribe, a prominent poisons expert, told the Medellin conference that in just one Bogota public hospital there was an average of three heroin-overdose cases per month.

"Cocaine overdoses are steady in fifth place of all emergency room acute poisonings, but heroin overdoses, not registered three years ago, have now jumped to seventh place."

Dr Uribe said heroin, according to patient case histories, was first given away and frequently exchanged for sexual favours. He was incensed by reports that ado-

lescents were being used as couriers, who were then paid for their services in the merchandise.

"Heroin is already a grave public health problem," said Dr Uribe, "and must be treated as a catastrophic disease of extremely high social cost."

Dr Augusto Pérez, Colombia's principal addiction expert, warned that there would be an impact on public health, as heroin injecting spread HIV, hepatitis B and other blood-borne diseases. Addiction also contributed to street crime.

"Colombian heroin users used to be mostly from the upper classes, who sniffed or smoked it but rarely injected."

"But in the last year we have had a completely different trend, people using local heroin coming from the lower classes, spending a lot of money and who are interested in trying injections," he said.

At least 6,000 Colombians are estimated to be addicted to heroin, and Dr Pérez calculates their numbers are increasing at such a rate that within four years Colombia will experience a full-blown outbreak of heroin abuse.

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NEWS: ASIA-PACIFIC

Ministers plan reduction in business costs, easing of state controls and creation of 7.4m jobs

Tokyo cabinet adopts economic reforms

By William Dawkins in Tokyo

The Japanese cabinet yesterday adopted an economic reform plan designed to reduce high business costs to the level of the country's main competitors by 2001.

co-ordinate implementation of yesterday's policy framework, which includes 500 concrete reform ideas. It plans to produce a detailed work programme by the end of March, to be followed by an annual progress review.

Senior Miti officials said the plan was the clearest sign yet of the hardening of a consensus for economic deregulation among policymakers. It follows the government's commitment last month to a five-year financial reform plan and its agreement partially to dismantle Nippon Telegraph and Telephone, the dominant domestic telecoms company.

costs and prices were increasingly evident in the run-up to the October general election. It is not yet clear how far other government ministries will respond to Miti's call for action, given traditional reluctance to tolerate a cut in their own powers.

ceptical. "The consensus for deregulation has become established wisdom, without being subjected to much critical scrutiny," said Mr Jeff Young, political analyst at Salomon Brothers Asia.

plan, companies will just bypass Japan for more competitive countries," he said. The current initiative gave a clear focus to previous piecemeal efforts at deregulation - discussion has been going on for the past decade but has rarely won political consensus - by focusing on the promotion of emerging sectors, and cutting business costs.

NZ bank cautious on wider inflation target

By Terry Hall in Wellington

Mr Don Brash, governor of New Zealand's central bank, yesterday responded cautiously to the new coalition government's announcement widening the bank's inflation target.

Hong Kong chief urges UK to face reality

By John Ridding in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon selected as Hong Kong's first post-colonial governor, yesterday urged the UK and Hong Kong governments to "face reality", criticising their opposition to Beijing's plan for a new legislature for the territory.

"It is wrong for Britain and Hong Kong to ignore the reality of the provisional legislature," he said, referring to the body which will replace the existing elected Legislative Council, whose sovereignty is transferred to China on July 1 next year.

Mr Tung's statements, his strongest on the issue, came in his first important speech since being selected last week as Hong Kong's first chief executive, as the next governor will be known.

After his speech, he left for Beijing, where he is expected to meet President Jiang Zemin and Prime Minister Li Peng.

The provisional legislature is due to be formed this weekend in a meeting in Sheoan, just across the border from Hong Kong. Its 60 members will be selected by a 400-member committee which was itself formed earlier this year by a Beijing-appointed body.

The legislature has emerged as one of the most serious obstacles to a smooth transition for Hong



Tung Chee-hwa: 'wrong to ignore reality of the provisional legislature'

Kong. Opinion polls suggest many in the territory are resigned to the new body, but pro-democracy politicians warn that the lack of an elected legislature will undermine government accountability.

Mr Tung sought to allay concerns about the legislature, arguing it would last for a maximum of one year and new elections would be held as early as possible.

Responding to critics of the selection process, Mr Tung said: "I believe the members of the provisional legislature will have a high degree of credibility."

He expressed his opposition. The chief executive-designate said yesterday he would seek to ensure a smooth transition in the civil service, while China signalled its desire for continuity in the administration.

He appeared to be referring to comments made by Sir Ti Llang-yang, the former chief justice, and a rival for the top post.

Mr Anson Chan, the chief secretary, is a staunch critic of the planned body; Mr Donald Tsang, the financial secretary, has also

expressed his opposition. The chief executive-designate said yesterday he would seek to ensure a smooth transition in the civil service, while China signalled its desire for continuity in the administration.

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Manila pilots' dispute settled

By Justin Marozzi in Manila

Philippine Airlines (PAL), the loss-making national carrier, has reached agreement with the country's pilots' union, it said yesterday. The peace deal ends a long period of strikes and disruption.

PAL said the two sides had "successfully negotiated terms for their new collective bargaining agreement". The agreement covers compensation, manning levels on long-haul flights and work rules "based on the concept of more pay for more work".

It follows a prolonged tussle between PAL and its employees over pay and staffing levels, most recently when 9,000 workers staged a "wildcat" strike shortly before Manila hosted the Asia Pacific Economic Co-operation (Apec) forum last month.

On that occasion, employees returned to work only after the airline threatened them with summary dismissal.

Last week, Mr Lucio Tan, PAL's chairman, said the airline was cutting its \$4m expansion programme after a labour department ruling requiring it to give pilots an annual 15 per cent pay rise for the next five years.

Mr Tan, a leading Chinese-Filipino businessman, called the ruling "unreasonable".

East Asian exports to bounce back

By Peter Montagnon, Asia Editor, in London

East Asia's exports should recover to show a growth rate of 10-15 per cent next year after rising by only 5-7 per cent in 1996, Mr Michael Walton, chief regional economist at the World Bank, said yesterday.

In a short assessment of the region's prospects, Mr Walton said the slowdown in growth, which featured a sharp fall-off in exports, was cyclical rather than structural. The bank is thus putting its weight behind the consensus view that there is no long-term threat to growth in the region.

Even among countries with the weaker performance this year, there were signs of strength. Thailand had a balance of payments deficit in excess of 8 per cent of gross domestic product, but it had a strong fiscal position and a high savings rate, he said.

Among the factors behind this year's poor export performance were the collapse in the market for computer chips, slower demand in the industrial world, the weaker yen and tax shifts in China that caused a spurt in exports in 1995.

But things are already improving and regional growth should recover to about 8 per cent in coming years, slightly below the 9 per cent in the first half of the 1990s but above the 7 per cent recorded in the 1980s.

Mr Walton said the region faced some important challenges in provision of infrastructure, income distribution, labour skill development, the environment and the development of financial markets.

The region's governments had shown an ability to rise to such challenges over the past 20 years. Nor would growth necessarily slow while these problems were being dealt with. East Asian governments should develop pension funds and other mechanisms for helping income distribution, leaving governments responsible only for a basic safety net.

Exports in 1997 should show growth of 10-15%

Investment in Chinese infrastructure has been running at 5 per cent of GDP. Even at this base level infrastructure investment will help sustain economic growth.

Mr Walton said only about 10 per cent of infrastructure spending came from the private sector. That share would rise to 30 per cent over time, though in Malaysia it could run as high as 70 per cent.

The bank placed emphasis on private-sector involvement in infrastructure, but the public sector would thus have to do so as well. "That will involve the public sector in getting greater internal efficiency," he said.

Export performance had varied. South Korea, Singapore, Thailand, Hong Kong and China had shown only small growth or actual falls. Better performance had come from Malaysia, Indonesia, the Philippines and Vietnam, where exports had risen 25 per cent this year.

Exports to bounce back

By Peter Montagnon, Asia Editor, in London

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Advertisement for Seiko Kinetic watches. The headline reads 'Good-bye Battery'. It features an image of a Seiko Kinetic watch and text describing its 'self-charging' technology. The text says: 'Welcome to the future: Seiko Kinetic, the first and only quartz watch that turns your movement into power. Every move you make is converted into electrical impulses by a tiny built-in powerhouse. Ecological, reliable and efficient: wear it just one day and produce energy to last at least two weeks. Wear it daily and it will run continually, 3 bar water resistant. Seiko Kinetic - it's built to last. Someday all watches will be made this way.'

Advertisement for WWF (World Wildlife Fund) titled 'TO SAVE THE RAINFOREST WE PROVIDE TREES TO CHOP DOWN.' It includes text about helping people in the rainforest to plant trees, WWF working to solve deforestation problems, and a list of products like firewood, growing saplings, and hand tools. It also mentions 'The idea behind all our work is that rainforests need to be used wisely and can be used forever.' and provides contact information for WWF.

Advertisement titled 'Thais pledge sharp cuts in spending'. It features a headline and text by Ted Bardache in Bangkok. The text discusses Thailand's new finance minister, Mr Annuay Viravan, and his proposed slashing of government spending by as much as B20bn (\$720m) in the current fiscal year. It mentions that the cuts were needed to make up for an expected shortfall in revenue caused by slowing economic activity, including a sharp fall in exports. It also notes that the government pledged to keep the budget in balance and hoped to maintain the Thai government's traditional budget surplus. Projects to be cut were those of 'low priority and high import content'. Some of the money saved, along with increased savings from provident funds early next year, could be injected into the money market to create the right climate for lowering interest rates, Mr Annuay added. High interest rates, now around 13 per cent, are partly to blame for Thailand's economic slowdown. He forecast growth of 7.7-7.8 per cent for the next three years, inflation at 5 per cent next year, and export growth of 7-10 per cent in 1997 and more than 10 per cent subsequently. He predicted a fall in the current account deficit next year to 7.5 per cent of gross domestic product, against 8.2 per cent this year. This improvement would bolster investor confidence, with enhanced foreign funds easing tight liquidity. Measures to deal with the ailing property sector, and a bailout of the Bangkok Bank of Commerce (BBOC), should also help. The government yesterday announced it would absorb up to B168bn in bad and doubtful debts from the BBOC and, by March, auction 51 per cent of the bank, which it took over earlier this year. The sale was likely to yield about B54bn, Mr Annuay said, and the government would be able to get back more through loan recovery and a sale of collateral. On the property sector, Mr Annuay was less specific, saying that an easing of tight liquidity would help reduce property company interest burdens. He said the government would extend payment terms for property company creditors, introduce measures to stimulate housing demand and push for a revised securitisation law to provide a new funding alternative for property developers. A proposal to let foreigners own land and buildings would also be put forward. Observer, Page 19

Advertisement titled 'CONTRACTS & TENDERS' and 'Invitation to tender'. It is an invitation to tender for the provision of Copper cable accessories through the following individual tenders: 1. Heat shrinkable closures, 2. Closures for buried and conduit cables, 3. Closures for aerial cables, 4. Crimpable connectors, 5. Insulation displacement contact modules, 6. Distribution boxes. SPTT now invites the Czech manufacturers of the above required goods or foreign manufacturers of the above required goods which have their direct local representations in the territory of the Czech Republic and which are authorised by the manufacturer to represent the manufacturer in this matter in the territory of the Czech Republic, to apply for the individual tenders at SPTT's fax No. (+42 2) 691 90 07 by 6 January 1997 at the latest. A bidder's application must be evidenced by a copy of the document confirming their fulfilment of the aforesaid requirement (eg by the copy of extract from the business records or by the authorisation from the competent manufacturer). The applicants fulfilling the aforesaid requirement will be then invited by SPTT to purchase the Bidding Documents which will be prepared in Czech language only. 1) The Bidding Documents may be purchased probably in January-February 1997. 2) The applicants will obtain the Bidding Documents upon payment of a non refundable fee of 10 000 CZK for each Bidding Document for each individual tender. The applicants fulfilling the aforesaid requirement will be informed of a method and a number of bank account for the remittances in common with an invitation to the purchasing of the Bidding Documents. 3) The Bidding Documents will be made available on presentation of the receipt for payment to SPTT at the address below: SPT TELECOM, a.s. Mr Vlastimil Necas - Manager of Procurement Department Olsanska 5 CZ-130 00 Praha 3, Czech Republic fax No. (+42 2) 691 90 07 4) The deadline for the submission of bids will be 3 weeks after the noted date for the purchasing of the Bidding Documents. All bids must be accompanied by a Bid security in the amount and currency stated in the Bidding Documents.

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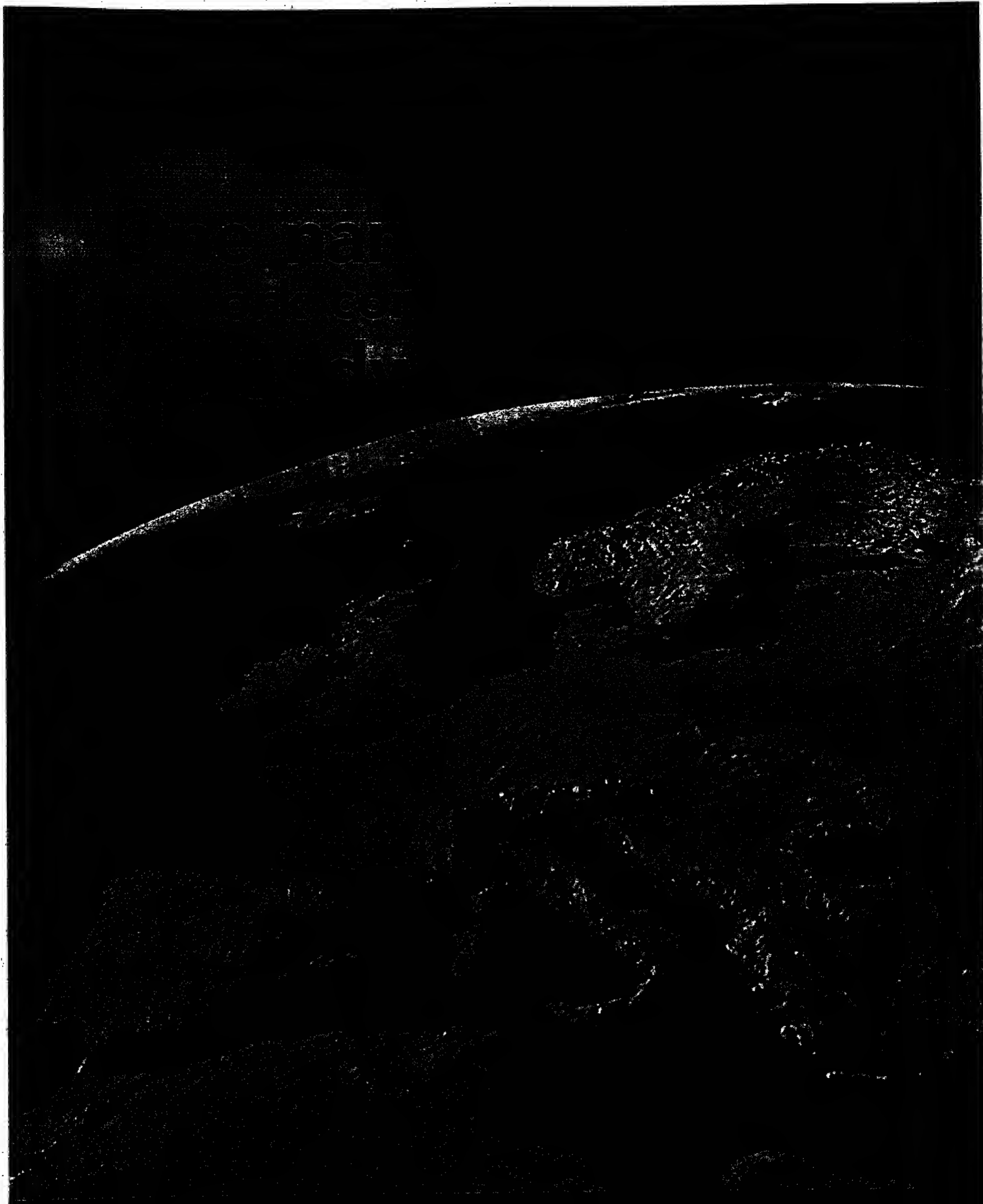
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NEWS: UK

Strasbourg judges uphold former chairman's complaint about trial fairness

Ex-Guinness chief wins rights appeal

By Robert Rice and John Mason... Mr Ernest Saunders, the former Guinness chairman jailed for theft and false accounting for the company's 1986 takeover of Distillers...



Meeting the press: Mr Saunders told reporters he had been subjected to an unfair process

London after the court decision. Mr Saunders said that he would have been acquitted if the DTI inspectors' evidence had not been used...

Ministers ease curb on trade with Iraq

By Jimmy Burns in London

For the first time since the Iraqi invasion of Kuwait six years ago, the British government is encouraging UK companies to step up their ties with Baghdad...

UK NEWS DIGEST

Barings report hits at bank

Mr Eddie George, governor of the Bank of England (the UK central bank), "failed to ally" concerns about the lack of co-operation between different UK and Singapore authorities over the collapse of the Barings merchant bank...

It said in a long-awaited report on the collapse that there were "very evident" difficulties in getting the Bank of England and the Singapore Monetary Authority to share information...

INSURANCE

Lloyd's market capacity rises

Lloyd's of London insurance syndicates will be able to accept up to £300m (£492m) more in premium income next year than they were allowed to write in 1995...

SPORT FUNDING

National stadium to be in London

The government pledged £200m (£328m) of National Lottery funding to English sport yesterday when it announced that the new national stadium would be sited at Wembley, in north-west London...

CAR SALES

Licence plate change is urged

The UK motor industry is to press for an alternative registration plate system to the current yearly identifier introduced each August. Scrapping the system would also save the industry "hundreds of millions" of pounds a year...

PUBLIC BORROWING

Total on track to meet forecast

Mr Kenneth Clarke, chief finance minister, yesterday appeared on track to meet his Budget forecast for public borrowing this year after healthy tax revenues offset a rise in public spending last month...

N Sea exploration bids to be liberalised

By Leyla Boulton, Environment Correspondent

The UK government yesterday proposed liberalising its system for licensing North Sea oil and gas exploration and development rights in an effort to speed up the exploitation of remaining reserves...

identifies blocks for which companies are invited to bid. Lord Fraser said the proposal, from companies, aimed to make the UK's licensing system more flexible...

already been snapped up in previous government tenders. This is saying "this is a bit fallow but if you are interested come and bid for it"...

also put the onus on companies to identify and address "potential sensitivities or conflicts of interest with other sea users". This included possible clashes with the fishing industry...

Cabinet paper dashes last Eurosceptic hopes

By Robert Peston, Political Editor

A cabinet briefing paper on European economic and monetary union, which has been sent to senior ministers, dashes any residual Eurosceptic hopes that the prime minister will abandon his "wait and see" approach to the project...

leading Eurosceptic backbenchers are ceasing their public battle for a firm policy of opposition to Emu. They include Mr John Redwood, who challenged Mr Major for the Conservative party leadership...

criteria are not being strictly enforced by EU countries. Mr Howard and other senior ministers hoped that the paper would provide Mr John Major with the economic underpinnings for such an anti-Emu campaign...

Degree standards arouse concern

By Nicholas Timmins, Public Policy Editor

Some - for example a drama degree awarded by the University of Kent in Spain - do not make clear that the degree is taught and awarded in a language other than English...

in another case involving the University of Strathclyde in Scotland, papers provided for a non-Greek speaking external examiner were for a time translated by one of the students on the course...

Manpower worries haunt drug companies

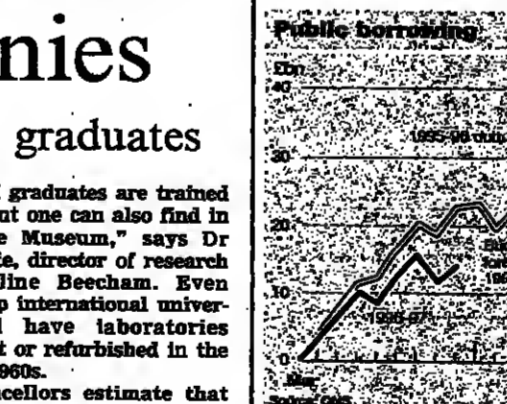
Glaxo and SmithKline Beecham may have to look outside the UK for well-trained graduates

The race to discover the wonder drugs of the next millennium has begun. Of course, pharmaceutical scientists do not talk of "wonder drugs". That promises too much...

Yet there is a nagging doubt in the minds of some drug company executives that they will not have the manpower - or, more accurately, the brain power - to sustain a competitive challenge...

The big cause for concern is the supposed declining quality of the UK's science graduates. But Dr Robin Fears, director of science policy at SmithKline Beecham, says: "The brightest graduates are as good as they ever were..."

Most UK graduates are trained on equipment one can also find in the Science Museum, says Dr George Poste, director of research at SmithKline Beecham. Even Britain's top international universities still have laboratories largely built or refurbished in the 1950s and 1960s...



Mr Kenneth Clarke, chief finance minister, yesterday appeared on track to meet his Budget forecast for public borrowing this year after healthy tax revenues offset a rise in public spending last month...

One of London's oldest banks is about to go under. Shouldn't you get involved?

'Collateral Damage' starts on Saturday, December 21. On December 21, the Financial Times begins an exclusive five-part serialisation of a new thriller by Peter Tasker, the acclaimed mystery writer...

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دکتر جانی

**Barings reports hits at bank**

**London's market capacity rises**

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## FINANCIAL TIMES SURVEY

Wednesday December 18 1996

# Norway

After a difficult start, the new prime minister is drawing up plans for sustaining prosperity when oil revenues start to decline, writes Hugh Carnegie

## Constructing the Norwegian house

When Mrs Gro Harlem Brundtland stepped down as Norway's prime minister in late October after dominating the country's political scene for more than a decade, transfer of power to her successor, Mr Thorbjørn Jagland, was carefully planned to be smooth and uneventful, causing no waves of controversy to upset the ruling Labour party.

But within weeks, Mr Jagland was plunged into stormy waters as a row exploded over allegations of improper share dealings by the star appointment to his new cabinet, Mr Terje Rød-Larsen.

This week has brought another blow with a second minister, Ms Grete Faremo, stepping down from the oil and energy brief because of alleged abuse of power by the national intelligence service during her previous job as justice minister.

Mr Rød-Larsen, who won international acclaim for his peace mediation efforts between Israel and the Palestinians, was brought home from the Gaza Strip by Mr Jagland amid great fanfare to be planning minister.

Leaving his role as special UN envoy in the Middle East, he was to play a key role in building "the Norwegian house" for the next century when the country will face a decline of the North Sea oil riches that in recent years have made it one of Europe's most prosperous nations.

Barely a month after the formation of the new govern-

ment, Mr Rød-Larsen had been turned from hero to villain and was forced to resign as allegations of wrongdoing - which he strenuously denied - piled up against him concerning a lucrative share option deal he was involved in a decade ago.

Mr Jagland, far from enjoying a honeymoon, instead endured an embarrassing scandal that shook his minority administration almost before its members had sat at their desks.

The prime minister quickly appointed a replacement planning minister, Mr Bendik Rugaas, the former head of the national library. Now he will be hoping that he can at last get on with moulding the government in his own image after the pre-eminence of Mrs Brundtland.

Mr Jagland, 47, was the uncontested successor to Mrs Brundtland when she decided to retire. A career party man, he had been chairman of the Labour party for 4 years, since Mrs Brundtland gave up the formal party leadership to concentrate on the prime ministry. She stepped down a year in advance of the next general election to give Mr Jagland and the party plenty of time to prepare without her.

Although he has a reputation for being to the left of the pragmatic, centrist Mrs Brundtland, Mr Jagland has promised to stick to the cautious fiscal policy espoused by her government.

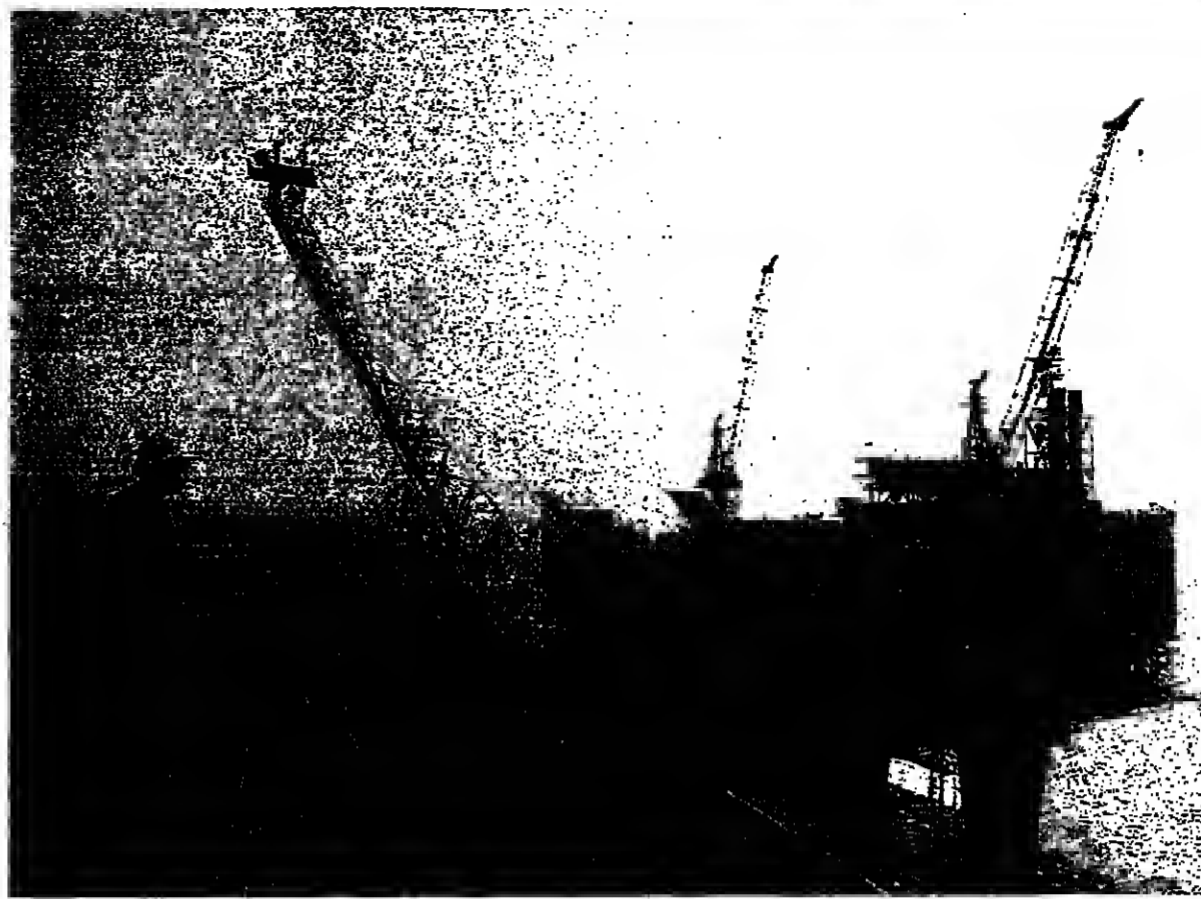
Mr Jagland has the great advantage of taking over as the economy, which is set to grow by more than 5 per

cent this year, is enjoying a powerful, oil-booster upswing which has driven down total unemployment to just over 5 per cent of the workforce, its lowest point since 1988. The chief worry of Mr Jens Stoltenberg, the new finance minister, is that the economy is in danger of overheating.

As the end of the century approaches, Norway is cashing in as never before on its petroleum riches. Pumping more than 3m barrels per day - three times the level a decade ago - the country has become the world's biggest exporter after Saudi Arabia. Combined with high world oil prices, the impact on the state treasury has been impressive: net cash flow this year will top Nkr70bn and is forecast to rise above Nkr77bn next year.

The result is the government has eliminated its debts and is now running a big budget surplus. Norway, were it a member of the European Union, would qualify for European monetary union with room to spare. This year, the government will pour Nkr46bn into its Petroleum Fund, to be invested abroad to convert today's surplus oil wealth into financial assets for use in the future. By the end of the year 2000, there should be Nkr270bn in the fund - equivalent to more than 20 per cent of today's gross domestic product.

Norway is vulnerable to any downturn in oil prices. There is also a contrary danger that the strength of the oil sector will drive up the



Oil platform in the North Sea: the "Norwegian house" of old, which stands in need of refurbishment over the next decade Tony Arden

value of the krone, overheat the domestic economy and erode the fragile competitiveness of the non-oil sector. The government says it is well aware of these risks and is determined not to be caught out.

Externally, the outlook for Mr Jagland is less comfortable, but hardly alarming. Norway has had to adjust to life on the fringes since the decision in a referendum two years ago to stay out of the EU - a decision Mr Jagland, like Mrs Brundtland, had fought to avoid.

But fears expressed by the pro-EU camp of Norway being left isolated have not to date been realised. Indeed, Norway has been allowed to become a de facto member of the EU's Schengen agreement on open borders to help it preserve its open border regime with neighbouring Finland and Sweden, which joined the EU when the Norwegians voted to stay out.

Norway has most of the economic and trade advantages of EU membership through the European Economic Area accord. It is, of course, excluded from decl-

sion-making bodies, a fact that EU supporters in Norway still believe will work to Oslo's long-term disadvantage. But the government works hard at making sure its voice is heard.

"I have never really met a closed door when trying to discuss issues with colleagues in the EU. I just have to travel a lot," says Mr Bjørn Tore Godal, the foreign minister.

Another advantage has accrued to Oslo through the re-emergence of Nato as the central security organisation in Europe. Norway is a founder member of Nato, it feared that security and defence policy would shift to the EU in the post-Cold War era, but is relieved that this has not occurred. "Nato is where it happens," says Mr Godal, with evident satisfaction.

Mr Jagland's chief concern is to use Norway's current wealth to prepare for a more uncertain future - hence his project to build *Det Norske Hus*. Early in the new century, oil revenues are forecast to start to decline sharply, while the ageing population will equally

sharply increase the state's pension commitments. There is a real question mark over whether the non-oil economy will then be able to support Norway's generous welfare system - to which the Labour party is deeply committed.

The prime minister has built his government - not withstanding the fall of Mr Rød-Larsen - with this in mind. The intention is to draw up long-term plans for "the Norwegian house" and to work hard to communicate the necessity of the task to a public inclined to oil-induced complacency. His appointment as justice minister of Ms Anne Holt, a well-known author of gritty detective novels featuring a lesbian Oslo police investigator, was one example of Mr Jagland's effort to make government and politics more accessible to a cynical electorate.

*Det Norske Hus* is to be founded on four pillars: a robust, private-sector onshore economy; an efficient welfare system; investment in culture, science and education; and Norway's external relations.

"It is an overall strategy for the development of Norway's welfare society," says Mr Stoltenberg. But there is a clear signal from Labour that this can only be built on a thriving private sector onshore. "We need a strong competitive private sector because we have to be prepared for a time when oil production will decline," says the finance minister.

This strategy will form the core of Labour's campaign for the general election next September. Aside from the "feel good" factor emanating from the economy, which is expected to continue healthy growth next year, Mr Jagland starts that campaign with a further big advantage in the form of the fragmentation of the opposition parties.

So divided are the Conservative and Centre parties, which traditionally form the core partnership of any non-Labour coalition, that Mr Jagland appears to have every prospect of sailing through the gap to election victory. In which case, he will have a further four years to put his vision of *Det Norske Hus* into practice.

### Politics

## Labour wins from feud

The largest party holds the rest at bay in the land of coalitions, reports Hugh Carnegie

With less than a year to go until the next general election, Norway's two main opposition parties are at daggers drawn. The chief beneficiary looks set to be Mr Thorbjørn Jagland, the new prime minister, and his ruling Labour party.

The Centre party and the Conservative party are former partners in centre-right government coalitions: a new alternative government to Labour - the country's single biggest party - looks out of the question unless they can co-operate.

But the two have been bitter enemies since a deep split over European policy caused the collapse of the last non-Labour coalition in 1990. The Conservatives strongly backed Norway's bid to join the European Union while the Centre party, which is rooted in the farming community, led the successful campaign to reject membership in a referendum in November 1994.

The expectation was that, after the referendum, which effectively removed the EU question from the political agenda for some time to come, the two groups would move closer once more. But under Mrs Anne Enger Lahnstein, its popular leader, the Centre party has staked out a policy position often to the left of Labour which has instead reinforced the differences with the Conservatives.

"It is a problem. So long as the Centre Party attacks Labour from the left, it will be extremely difficult to

Continued on Page 11

Gas began flowing in October from Norway's Troll field to millions of European consumers, large and small. The Troll A gas platform will produce for at least 50 years, and its opening is hugely significant for Statoil as operator and for the whole Norwegian oil and gas industry. But we hope recipients of this gas will only notice that it's there - not only now but also in the years to come.



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# II NORWAY

Government Petroleum Funds by Hugh Carnegy

## Planning for a rainy day

The scale of the surpluses raises severe problems over where to invest them

It is the kind of problem most finance ministers and central bankers only get to dream about. What to do with billions of dollars left over when all government spending is taken care of? Yet that is exactly what Norway has to deal with because of the huge flow of funds from its North Sea oil and gas production. The answer Oslo has come up with is called the Petroleum Fund.

over is used for investment for the future benefit of the nation. After the system was set up in 1990, when Norway was in recession, there was, initially, no surplus in the Petroleum Fund because of the size of the budget deficit at the time. But since 1993, the underlying state finances have swung closer to balance and this, combined with strong oil prices, has produced a hefty surplus piling up in the Petroleum Fund.

oil wealth now would result in real exchange rate appreciation and it would cause a building-down of our non-oil tradeable economy to levels which would not sustain us when the oil revenues decline," says Mr Martin Skancke, deputy director general at the finance ministry. "We regard the Petroleum Fund as a mechanism to transform the oil wealth into financial assets for the future."

Opposition parties have argued for increased spending, but the government insists there is no room for a looser fiscal stance without the risk of overheating the economy. Meanwhile, the government has eliminated any debt overhang from the past. The result is that in 1997, the net surplus added to the Petroleum Fund will be NKR55.4bn - on top of NKR48bn this year and NKR2bn in 1996. By the year 2000, the government now anticipates the fund will reach NKR270bn, including accumulated dividends.

government is determined to avoid. So, too, would subsidising "national champion" industries. The fund will therefore be used to invest in foreign assets. The Bank of Norway has been put in charge of the operation. The bank has looked around the world for examples to follow in planning an investment strategy - but has not found too much to help it.

### Government net lending (NKRbn)

	1995	1996	1997
Surplus in Government Petroleum Fund	2.0	45.5	57.4
Differences between central government accounts and national accounts	11.5	13.0	0.2
Central government net lending	26.0	44.5	72.0
General government net lending	30.5	53.5	68.7

bonds, weighted towards the currencies in which Norway has its biggest import demands. That means the D-Mark, the Swedish krona, sterling, the US dollar and the yen will figure prominently.

combined with fixed-rate instruments you can still have stability. In fact, certain combinations of bonds and equities might actually reduce volatility," Mr Berge says.

instruments which were based on equity prices, but not actually direct investments in any particular company. Whatever the instruments, the intention is that the fund should provide a way of ensuring Norway's oil wealth is stretched well beyond the years in which the black stuff is actually being lifted from under the sea.

## Labour wins from feud

Continued from Page 1 form a united front against the government," says Mr Jan Petersen, the Conservative leader. He says it is already clear there will be no rapprochement with Centre before the election next September.

facing the Conservatives and Centre is a recent wave of popularity for the Progress party under its telegenic leader, Mr Carl Hagen. With a sharp anti-immigrant tone, it has been attracting voters disaffected by Labour's grip on power. But its policies have made it a taboo partner for any potential alternative coalition government.

that it is a question of a Labour or a Conservative-led group. We have to give the electorate an alternative to both left and right." The only real winner from the opposition splits will be Labour. With the EU issue defused as Centre's most popular election attraction, it has slipped in the polls and seems set to lose seats next year. But the Conservatives, undermined by support growing for the Progress party, is struggling to climb over the 20 per cent barrier again.



Thorbjørn Jagland, prime minister Brundtland's uncontested successor

## PROFILE Growing in the shadow

Future growth in demand lies in the arrival of digital television transmission. Sweden's Ericsson and Nokia of Finland are the Nordic telecoms giants - but Bergen-based Nera is one of several telecoms equipment manufacturers in the region, fast developing significant world markets of their own in the shadow of the big two.

transmission systems. These systems are used in both fixed and mobile networks to provide a wireless link, particularly in areas of difficult or remote geography. Sales in the first nine months grew 26 per cent to NKR741m.

Fishing by Hugh Carnegy

## Second to oil, but still a vital industry

Fish processing and a better relationship with the EU are keys to the future

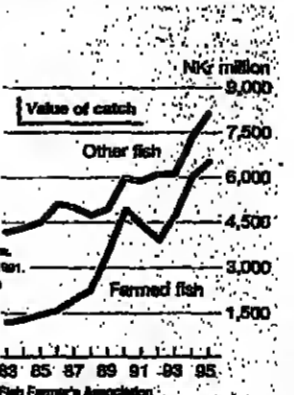
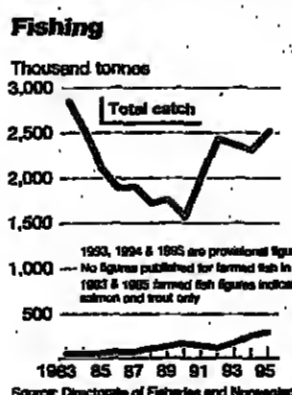
There is no country in Europe to which the fishing industry is more important than it is to Norway. Since the rise of the North Sea oil industry, fishing has slipped in its economic significance to the nation. Fish and fish products account for 8 per cent of exports, compared with almost 30 per cent accounted for by oil and gas. Metals and machinery exports are each now worth more than fish exports.

grounds was a critical factor in the vote to reject membership of the European Union. In the future, when oil and gas reserves start to run out, fishing should once again assume its traditional position as a vital - and sustainable - natural resource. The political significance of the fishing industry has much to do with its historical role as the chief source of income and livelihood for far-flung coastal communities, to which many Norwegians still have close generational ties.

The outlook is not so good further south in the North Sea, however, where Norway is involved in an uneasy relationship with the EU over fishing practices. "We are somewhat afraid that our friends in the EU don't give enough weight to the principle of sustainable development," says Mr Schjøtt-Pedersen. Norway argues that demersal species - mainly

itself in conflict with the EU over its highly-developed fish-farming industry, which has grown to become an important part of the nation's fish sector. Last year, farmed fish - mainly salmon and trout - accounted for NKR7bn in value, out of the total catch of almost NKR15bn.

producers, by cutting disease and increasing productivity. Nevertheless, Oslo has imposed restrictions on feed levels and cage capacity to curb output in a bid to assuage EU suspicions. As a non-EU member, Norway is clearly vulnerable to actions against it by Brussels. In the long-term, it will have to smooth relations if the increasingly important fish-farming sector is to enjoy stable growth.



cod and haddock - are being overfished because quotas are too high and because EU regulations allow fishermen to catch and discard many fish of species over their quota limits which are netted while fishing for species not yet fished up to quota levels. Oslo also says EU quotas for herring and mackerel in the North Sea are too high. What it wants to see are lower quotas and other measures such as a halt to fishing in sensitive areas and refined nets to ensure breeding stocks are rebuilt. Norway has also found

charges that Norway is guilty of subsidising its industry against EU rules and of dumping salmon on European markets at below production price. The European Commission is expected to impose a minimum import price as a countermeasure. Norway is the highest European producer, expected to farm almost 300,000 tonnes of salmon this year, compared with 80,000 tonnes in Scotland. But Mr Schjøtt-Pedersen argues that Norway has simply become more efficient than other

producers, by cutting disease and increasing productivity. Nevertheless, Oslo has imposed restrictions on feed levels and cage capacity to curb output in a bid to assuage EU suspicions. As a non-EU member, Norway is clearly vulnerable to actions against it by Brussels. In the long-term, it will have to smooth relations if the increasingly important fish-farming sector is to enjoy stable growth.

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IV NORWAY

PROFILE Personal Independent Vehicle Company (Pivco)

# No need for oil here

It is small and for short journeys, and faces considerable competition

Norway's prosperity owes a big debt to the internal combustion engine, as the world's ever-growing fleet of cars fuels demand for petrol from the country's North Sea oil reserves. But a company based in the outskirts of Oslo is working hard to perfect a vehicle that uses no petrol at all.

Pivco's CityBee is an electrically-powered two-seater car that aims to claim a niche in the global car market for short-range urban driving.

There is no tradition of car making in Norway. But the CityBee has already made its mark in the highly competitive race to produce effective electric vehicles that can offer a clean car of the future.

In 1995, the CityBee was voted the Scandinavian Electric Car of the Year in a rally of 28 prototypes from producers that included motor industry giants such as Toyota, Ford and Renault.

This year, the Bay Area Rapid Transit (Bart) subway railway system in San Francisco bought 40 CityBees in a pioneering contract to offer Bart users cheap, clean road links from subway stations to their offices. The Norwegian Post Office is testing CityBees with a view to using them routinely for urban delivery services.

Pivco decided earlier this



The CityBee: a purpose-built electric car for urban driving, aimed at the global market

year that it was ready to move to commercial production of the CityBee. It is working with the British specialist car company Lotus to finalise all the road-going features of the vehicle and plans have been laid for production lines to Norway and California with the capacity to make more than 10,000 CityBees a year.

The CityBee was first conceived after the 1973 oil shock by Mr Lars Ringdal, a Norwegian businessman who has since died, but whose family still controls 40 per cent of Pivco.

The idea to produce an electric car independent of oil was not original. But Pivco, incorporated in 1991, differs from other companies working to develop electrically-powered vehicles. It has not

concentrated on the technology of batteries and electrical motors, which it buys in from outside. Its emphasis has been on developing the concept of what the electrical car should be.

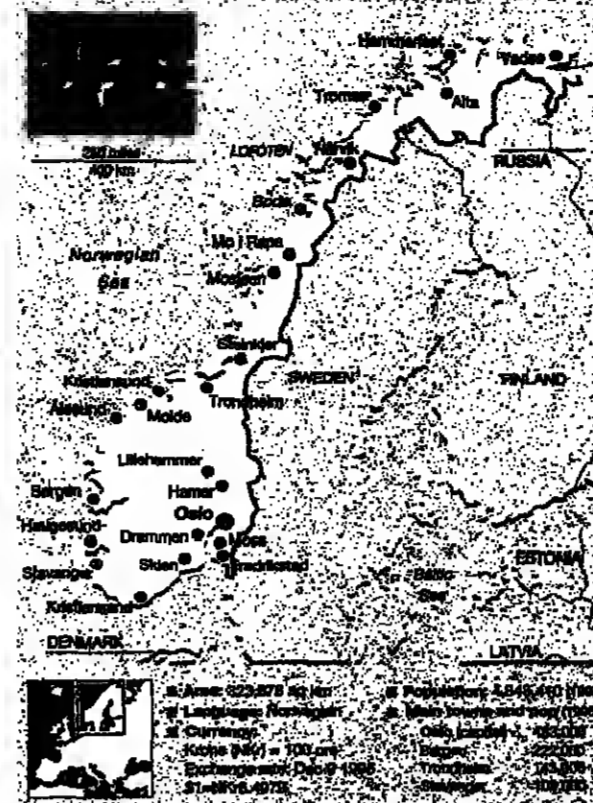
"Almost all cars today can be converted to electrical power, but it is very expensive and not efficient," says Mr Rolf Gulbrandsen, Pivco's chief executive. "What we have focused on is the concept - and the design of the car. Our goal is that the car should be sold at a price that is just as cheap as a regular car, with very low running costs."

The CityBee is not meant to be an all-purpose car, capable of carrying five people and their luggage for long distances. It is very small, only 2.8m long and

1.5m wide, and is intended to be used for short journeys within cities - for personal transport or delivery work.

Mr Gulbrandsen says the "driving force" behind the CityBee concept is the pollution caused by normal cars. He argues that most petrol-driven cars are huge energy wasters. He points out that 70 per cent of all cars in western Europe are used in urban areas, averaging just 40km a day at an average speed of 25km per hour and carrying less than two people per journey.

The CityBee may only have a range of 110km between battery recharges and a top speed of 90km per hour. But this falls well within the profile of most urban driving. Battery recharging costs about Nkr5 - much less than the



Economic summary		1996(e)	1997(f)
Total GDP, nominal (\$ bn)		151	181
Real GDP growth (annual % change)		4.8	5.3
GDP per head (\$)		34,482	36,470
Inflation (annual % change in CPI)		1.2	2.4
Average hourly earnings (annual % change)		4.0	4.8
Manufacturing production (annual % change)		2.5	3.3
Unemployment rate (%)		4.4	4.5
Government bond yield (%)		6.9	7.1
General government budget balance (% of GDP)		5.0	4.5
Gross public debt (% of GDP)		47.1	44.5
Current account balance (\$ bn)		8.1	10.5
Merchandise exports (\$ bn)		47.1	51.9
Merchandise imports (\$ bn)		34.8	38.1
Trade balance (\$ bn)		12.3	13.8
Main trading partners (Share of total trade to world, 1995)			
	Exports	Imports	
EU	77.9%	71.0%	
UK	13.9%	8.7%	
Germany	12.7%	15.9%	
Sweden	8.9%	16.4%	
Netherlands	5.1%	4.4%	

Government and constitution			
<b>Head of state</b> King Harald V ascended in 1991	<b>National legislature</b> Storting (parliament) of 195 members directly elected by proportional representation for a four-year term. The Storting divides into an upper house (Lagting) and a lower house (Odelsting) by internal election, although it sits as a single body except when discussing new legislation. There is no right of dissolution between elections.	<b>National government</b> Council of State (Storting) headed by prime minister, responsible to the Storting.	<b>Main political parties</b> Labour Party (37 seats) Centre Party (22 seats) Conservative Party (25 seats) Socialist Left Party (13 seats) Progress Party (10 seats) Liberal Party (7 seats)
<b>Head of government</b> Prime minister Thorolf Jørgen Langland	<b>Form of state</b> Constitutional monarchy	<b>Electoral system</b> Universal direct suffrage over age 18	<b>National elections</b> Last election September 1995 Next election due September 1997
<b>Legal system</b> Based on the constitution of 1814			

cost of petrol to drive a normal car 110km - and the car is emission-free. Pivco has laid heavy stress on the design of the vehicle as well. It uses an aluminium "space frame" on to which a one-piece thermoplastic body is fitted. The result, the company claims, is a car that meets the most rigorous safety standards for small cars

- but can be almost completely recycled. At the same time, the number of parts used to build a CityBee is 500, compared with around 3,000 in a regular small car.

The CityBee is up against formidable competition. General Motors of the US, the world's biggest car maker, has introduced its EV1 two-seater electric car this year. Toyota has built a 4-wheel drive electric car, and Honda a minivan. Mercedes intends to produce an electric version of its "Smart" car it is developing

with Swatch, the Swiss watch maker. But Mr Gulbrandsen is undeterred. "At a show in Japan in October there were 34 electric cars on display. But most were copies of all-purpose cars," he says. "We intend to be different." Pivco has enjoyed financial backing from some Norwegian industrial companies, including Statoil, the big oil group, and Oslo Energy, the city utility, as well as some institutional investors. It has to date invested Nkr100m in developing the

CityBee. As it moves to start large-scale production, the real test of whether the vehicle can find a place in the car market is about to begin. Mr Gulbrandsen says that when commercial sales begin, Pivco may seek industrial partners to help it with marketing and distribution. But he doubts he will seek out a traditional car maker for help. They, after all, are the competition.

Hugh Carnegie

Key economic projections			
Change from previous year (%)	1996	1997	1997
	(1995 prices)		
Public consumption	181.2	22	0.9
Government expenditure	181.2	22	0.9
of which petroleum activities	46.0	2.2	3.4
Private consumption	354.7	7.5	6.3
Investment	132.4	8.8	5.2
of which traditional goods	202.1	6.1	6.2
of which traditional Norway	745.1	8.8	2.6
Monetary growth	4	4	5.5
Wage growth	4	4	5.5
Household savings, % of net disposable income	10	6	5
Government savings, % of net disposable income	10	7.8	7.7
as percentage of GDP			

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**CHRISTIANIA BANK**  
Christiania Bank og Kreditkasse  
NOK 1,390,924,392

1995  
Global Secondary Offering of 97,952,422 Ordinary Shares  
SBC Warburg acted as sole global co-ordinator

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**ZURICH**  
Zurich Insurance Group  
NOK 549,473,220

1996  
Acquisition of Protector Forsikring ASA  
SBC Warburg acted as financial adviser to Zurich Insurance

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**KVÆRNER**  
Kværner ASA  
GBP 904,000,000

1996  
Acquisition of Trolfagar House  
SBC Warburg acted as financial adviser to Kværner

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**Bona Shipholding Ltd.**  
USD 152,000,000

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Acquisition of Smedvig Tankships Limited  
SBC Warburg acted as adviser to Bona Shipholding

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Edward Mortimer

Open invitation

The EU and Nato should do more to bring Russia and other new democracies into the western community



"Our goal is to welcome the new member(s) by the time of Nato's 50th anniversary in 1999. Nato foreign ministers declared at their meeting in Brussels last week...

The brackets round the "s" are undoubtedly coy. Although Poland, the historic battleground between Germany and Russia, is the only likely new member of strategic importance, it is no secret that the Czech Republic and Hungary will also be on the list when Nato's political leaders unveil it at a summit in Madrid next July.

The only candidates which are still in doubt are Slovenia and Romania. Otherwise, the list for the "class of 99" is closed. William Perry, US defence secretary, broke the bad news to the Baltic states in September, telling them they were "not yet ready for Nato". Bulgaria must languish until there is another round of enlargement - as must Slovakia, Ukraine, and Russia.

The arguments against this approach are recalled in a recent report by two security think-tanks, one Anglo-American, the other European. It annoys the Russians, divides the new democracies and encourages countries which face no external threat to devote meagre resources to defence rather than to cushioning the painful transition from socialism to market economies.

The authors argue that the EU, rather than Nato, should take the lead in bringing the new democracies into the western community. Nato is telling the EU to do this for the Baltic states, they point out, so why not for the central Europeans as well? What central Europe needs is the psychological reassurance and investor confidence that comes from full integration in western society, which the EU, rather than Nato, can offer.

Those points are valid, but it is too late to reopen the argument. The Russians have been told too often that Nato enlargement is neither directed against them nor subject to their consent. To retreat from it now would involve a damaging loss of Nato credibility.

As for the EU, its enlargement, however desirable, is too slow to be used as a quick fix. EU membership involves painful adjustment of laws and economic practices in the candidate countries. Even more difficult, it requires the alteration of deeply ingrained procedures on matters such as the Common Agricultural Policy, with the mollification of powerful vested interests.

Despite their overlapping membership, however, Nato and the EU have not talked directly to each other until the last few weeks. It is only now that the agenda of building a new European order to replace that of the cold war is getting the co-ordinated strategic attention it should have had since 1990.

Two contributions to this effort come from distinguished researchers at the London School of Economics. The first is Professor

Russia's options

Politics and security 1996-2010

- EU Council of Europe WEU Nato OSCE Security Council OSCE plenary OSCE UN Security Council UN General Assembly

Economics 1996-2010

- EU OECD EBRD WTO IMF & IIRD

William Wallace (now a Liberal Democrat peer), who argues persuasively that an enlarged EU "must do less, so as to do it better". The Union should leave details of social, environmental and agricultural legislation to member states, he says, and concentrate on strengthening its capacity to conduct foreign policy, fight cross-border crime and manage the pressures of migrants and refugees.

The second is Michael Emerson, a former EU ambassador in Moscow, who looks at how the map of Europe has changed since the Roman Empire and how it is likely to look in 2050.

Mr Emerson presents charts to show the main international organisations relevant to Europe - and which of these Russia, the US and the EU belong to. It is, he remarks, "an incoherent mess for the EU, with many semi-memberships and ambiguities". It has no presence in Nato, the UN Security Council or the International Monetary Fund. For Russia, the position is "unsatisfactory" with many exclusions, as the chart below shows. The US is the leader in all

Table with 4 columns: Organisation, EU membership, US membership, and Russia membership. Rows include NATO, UN Security Council, IMF & IIRD, etc.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL We are keen to encourage letters from readers around the world... Translation may be available for letters written in the main international languages.

Experts say genetic soybeans safe and need no special labels

From Michael A. Scharf, Sir, Joe Rogay's article "Beans and genes" (December 7/8) did not contribute very much to the genetic engineering debate... I'm just disappointed that he only gave a passing reference to the fact that experts and government agencies around the world, including the US, Europe, UK, Japan, Canada, Mexico and Argentina, have concluded unconditionally that Roundup

Standards recognised

From Mr John Roper, Sir, Mr Patrick Moullet, secretary of the Financial Action Task Force on Money Laundering, is quite correct in saying (Letters, December 16) evaluations carried out on the Crown Dependencies and presented to the June 1995 FATF plenary meeting were not official FATF mutual evaluation reports... These evaluations were carried out by officials from the UK Treasury, Home Office and Bank of England and an officer of the Central Research Institute of the Netherlands Police Force. They found that the legal, financial and law enforcement structures in Guernsey were substantially in accordance with the FATF's 40 recommendations. The report concluded: "The attitude of Guernsey authorities towards money laundering is extremely healthy, and is reflected in the understanding of the issue among financial institutions and the population at large."

Ageing population no pensions disaster

From Mr Walter Stanners, Sir, Another article about the pension time bomb ("Germany's pension time bomb", December 16) several of your commentators have covered this. It is obviously a good running story. In each article (and no doubt in many others throughout the press), the same scary vocabulary (time bomb, crisis, spiralling costs, impossible to maintain, huge strain, grave situation) and the same material (ageing population, fewer full-time workers, more casual work, rising non-wage costs, intersectoral competitiveness) are recycled. Each closely examines the trees, while determinedly turning a blind eye to the

wood. Not one, so far as I recall, has argued that the ageing of the population is going to lead to an actual reduction of national income per head. It is that, rather than the scary language used, that is the real issue... progress), we will have to consume less and save more during our working lives, and consume more and "dis-save" more in our non-working lives.

Unequal standards allow diesel engines to survive

From Mr Vic Heylen, Sir, Stuart Marshall paints a rather rosy picture of the diesel engine and its potential for use in motor cars. "Downhill days for diesels" (December 14). In spite of impressive improvements a diesel engine is still noisier, smellier, heavier and more costly to produce than a comparable petrol engine. They admittedly use less fuel and therefore emit less CO2, but also do not come anywhere near the performance of a petrol engine. Most problematic, however, is their higher NOx and particulate emissions which are supposed to be carcinogenic. Whether the latter is true or not has

become more or less irrelevant. Once a substance or a technology has acquired such an epithet, its long-term survival is seriously threatened... The truth of the matter is that, with exception of the UK, diesel technology survives mainly on artificially low fuel prices because of lower taxation and the fact that the European Commission allows more lenient exhaust emission regulations for diesels. If diesels had to meet the same standards as petrol engines, it would mean instant death. This is another example where legislation hampers technical progress. Long ago it was the UK road tax sys-

Pfizer forum Alzheimer's Disease: A Scourge That Must Be Beaten. BY THE HON. DANILIO POGGIOLINI

The social challenges created by AD are equally daunting. The patient's gradual loss of independence creates huge difficulties for the family in both financial and psychological terms. An AD patient very soon requires constant and exhaustive supervision, which hospital geriatric wards cannot provide. It is therefore a high priority to define appropriate forms of psychological, medical and financial help to



allow families to keep their relatives with AD at home as long as possible, and to find ways to permit patients to live in conditions which respect their dignity and humanity.

The ageing of Europe's population and the longer average lifespan have led to an increased frequency of age-related diseases, such as Alzheimer's. As many as 8 million people may be stricken by the year 2000. A Member of the European Parliament offers a list of measures to help families and societies face this dreaded illness.

Alzheimer's Disease (AD), named after the German doctor who first diagnosed it in 1907, is an irreversible and incurable degeneration of the brain leading to loss of memory, confusion, personality disturbances, and progressive loss of independence. Ultimately, patients die of related complications, such as respiratory failure. The disease strikes mainly those over 60 (around 5 per cent of whom are affected), and its prevalence doubles approximately every five years between the ages of 60 and 90. The World Health Organisation estimates that one quarter of all those who reach the age of 85 suffers from Alzheimer's. Because of this link to age, AD affects more people in societies with a longer life expectancy - such as Western Europe.

Fortunately, a number of voluntary associations have sprung up throughout Europe to help alleviate the problems created by this disease. Most have been founded by families of AD sufferers. Their activities range from the production of information leaflets, to the establishment of day-care centres for AD patients and telephone help-lines providing information and psychological support to carers. It is essential that these organisations receive financial support, but also that they be integrated into the network of existing social and hospital systems.

Europe's response to the issues raised by AD has been somewhat timid, but positive signs are emerging, such as the European conference on "The Practical Management of Alzheimer's Disease" (November 21-22 in Limerick, Ireland), organised by the Irish Department of Health and the Alzheimer Society of Ireland on behalf of the European Commission, in order to assess current approaches to the care of AD patients, and to define future research requirements concerning the social aspects of the disease.

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Personal View - Richard Layard

False fears about Emu

Opposition to UK membership of the single currency is based on unsound arguments. People worry that European economic and monetary union (Emu) will cost jobs. At a minimum, they say, the UK should wait and see. These arguments are generally based on several fallacies. Fallacy 1. Emu is like the exchange rate mechanism (ERM), which the UK left in 1992 - but worse.

British jobs depend heavily on European growth, whether in or out of Europe's currency. But only if the UK is in can it influence that growth. Fallacy 2. The UK should not join until its real economy has converged with that of other leading EU economies. The simplest form of this argument is that the UK must have higher productivity to compete internationally - and until productivity levels are up with the leaders, it is dangerous to join.

Second, the ERM and Emu are quite different. Under the ERM, there is the possibility of occasional readjustments of exchange rates. This exchange rate risk damages trade and increases interest rates. Under Emu, there are no European exchange rates, so this problem disappears. And there is another huge difference. Under the ERM, the D-Mark operates as the anchor currency and the other countries peg to it. This means French interest rates are determined by the needs of the German economy, and this is bad for jobs in France. Under Emu, interest rates would be set by a representative European central bank.

If productivity really had to be uniform inside a currency union, different currencies would be needed in different parts of the UK and in different US states. Another version of the argument, put forward by Eddie George, Bank of England governor, says there has to be real convergence in unemployment rates. But unemployment is determined in the long run by different forces from those which determine inflation and economic stability - mainly by labour market structure which always differs between countries. A non-inflationary reduction of unemployment in all the countries of Europe is essential, and there are labour market policies that can achieve it. But that is a totally independent issue from the regulation of the UK's financial affairs: the case for joining the single currency rests on what it

FINANCIAL Tough for Tu... Greek st... launders' r



LEGAL DEFINITIONS
lawsuit n. 1 usu. of plaintiff variety
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Zaire shuns peace talks
as Mobutu returns home

By our foreign staff

President Mobutu Sese Seko of Zaire returned home yesterday after four months abroad in an attempt to reassert his faltering authority and quell a rebellion on the country's eastern border.

skin hat that has become the president's trademark, surged forward as the aircraft taxied to a halt. Mr Mobutu smiled broadly as he walked down the steps with his wife, Bobi Ladawa, to cheering, drumming, music and chanting.

Uganda and Tanzania, since their last meeting on November 5. In a communique released yesterday, the leaders renewed their appeal for a ceasefire in eastern Zaire and called upon the parties to the conflict to commit themselves to a negotiated, peaceful settlement.

Bank of France cuts key interest rates

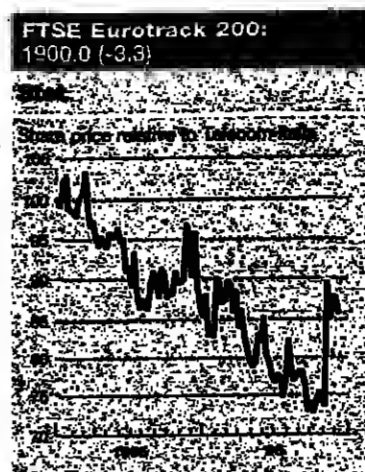
By Andrew Jack in Paris

Price stability and renewed confidence in French progress towards monetary union prompted the Bank of France to cut two important interest rates yesterday.

Fat of the land

THE LEX COLUMN

A subsidy by any other name smells just as rotten. That, it seems, is the robust attitude of Mr Karel Van Miert, European competition commissioner, to Germany's state-guaranteed Landesbanken.



would create little value to offset the premium Allianz would have to pay. Of course, Allianz could still make a move in order to wrest back the title of Europe's biggest insurer from Allianz.

Malaysia changes finance plans for Sarawak dam

By James Kyngne in Kuala Lumpur

Mr Ting Pek Khing, the Malaysian construction magnate, has revised the financing plans for the building of a \$1.5-billion hydroelectric dam in Sarawak, one of south-east Asia's biggest infrastructure projects.

initial share issue, expected in the first half of next year, would comprise 1.5bn shares priced at M\$3 each, and would be followed by a rights issue of another tranche of 1.5bn shares about 18 months later.

meagre projected returns. The new financing plan was launched after claims that the earlier provision was unrealistic. The main cause for doubt was that Bakun was not due to start commercial operations until August 31 2003.

Stet/Telecom Italia Since Italy said it would merge its two main telecoms companies last month, their shares have fared differently: those of Stet, a holding company, have shot up about 20 per cent; but those of Telecom Italia, an operator owned mostly by Stet, have been flat.

Commercial Union The spotlight of market rumour swings more wildly in the insurance sector than most, but even by these standards Commercial Union is caught in the beam with conspicuous frequency.

Swiss drugs merger wins US backing

Continued from Page 1

(\$27.2bn). The technologies Novartis will have to offer in exchange for other companies' intellectual property are a cancer treatment called HSV-tk (herpes simplex virus thymidine kinase), gene therapy conducted outside the body and related technologies.

Poulenc of France. It will also pay \$60m over five years in HSV-tk royalties to Chiron, the California biotechnology company part-owned by Ciba.

off after-tax restructuring charge of SFr3.5bn in 1996, which will be offset by after tax gains on asset disposals of SFr1.5bn. Net income next year is expected to be about SFr4bn, similar to last year's figure.

Advertisement for Amper, S.A. featuring a logo and text: 'This announcement appears as a matter of record only', 'December 1996', 'Amper, S.A. has sold an 80% stake of Amper Electronica Aragonesa, S.A. (Amper Elasa) and a 10% stake of Amper Datos, S.A. to Siemens, S.A. Santander Investment acted as Financial Advisor to Amper, issuing a "Fairness Opinion"'

Weather guide section titled 'FT WEATHER GUIDE' and 'Europe today'. Includes a weather map of Europe, a five-day forecast, and a table of 'TODAY'S TEMPERATURES' for various cities like Abu Dhabi, Accra, Algiers, Amsterdam, Athens, Atlanta, B. Aires, Bham, Bangkok, Barcelona, Beijing, Belfast, Belgrade, Berlin, Bern, Bermuda, Bogota, Bombay, Brussels, Budapest, Cagliari, Cairo, Cape Town, Caracas, Cardiff, Casablanca, Chicago, Cologne, Dakar, Dallas, Delhi, Dubai, Dublin, Dushanbe, Edinburgh, Faro, Frankfurt, Geneva, Gibraltar, Glasgow, Hamburg, Helsinki, Hong Kong, Honolulu, Istanbul, Jakarta, Jersey, Karachi, Kuwait, L. Angeles, Las Palmas, Lima, Lisbon, London, Luxembourg, Lyon, Madeira, Madrid, Majorca, Manila, Manchester, Maracaibo, Melbourne, Mexico City, Miami, Milan, Montreal, Moscow, Murcia, Nairobi, Naples, Nassau, New York, Nice, Niassa, Nicosia, Oslo, Oulu, Paris, Perth, Prague, Rangoon, Reykjavik, Rio, Rome, S. Francisco, Seoul, Singapore, Stockholm, Strasbourg, Sydney, Tangier, Tel Aviv, Tokyo, Toronto, Vancouver, Venice, Vienna, Warsaw, Washington, Wellington, Zurich.

Vertical advertisement on the right edge of the page for 'Another Brother PRINTERS & MACHINES' and 'Zandia drops of merger'.

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IN BRIEF

Skandia drops out of merger

Skandia, the leading Nordic insurer, has conceded defeat in its quest to merge with Stadshypotek, the Swedish mortgage bank.

Murdoch spurs French satellite move Rupert Murdoch's News Corporation has turned down an opportunity to join a consortium in France about to launch a digital satellite service to compete with Canal Plus.

Owens-Illinois buys 75% of Avir Owens-Illinois of the US is set to become Europe's second-largest manufacturer of glass containers after its purchase of 75 per cent of shares in Avir of Italy.

Eurotherm expects profits downturn Eurotherm, the UK industrial controls manufacturer, is expecting sterling's strength to knock slightly more than 5 per cent from pre-tax profits this year.

Italy to sell 60% of alling bank The Italian treasury said it had kicked off a 1.977 trillion lire capital increase for troubled Banco di Napoli. It said it had begun the underwriting for the operation, designed to recapitalize the ailing bank which it took control of after it unveiled record losses of L3,120bn (\$2bn) in 1995.

Table with columns: Company, Shareholder, Percentage. Lists companies like ABB, Agip, Allianz Forest, AssiDomini, Avir, BCH, Ballard Power System, Balco, Bancocycle, Boeing, Burnfield, CRT, Ciba, Deutsche Telecom, Ef, Eurotherm, Faj, Falvey, France Telecom, Frontier, GE, GEC Alsthom, Goldman Sachs, Hitachi, Indosat, Kerry Securities, Kimberley-Clark, Kolbenschmidt.

Market Statistics table with columns: Category, Value. Includes Annual reports service, Bond futures and options, Bond prices and yields, Commodity prices, Dividends announced, EMS currency rates, Fixed interest rates, FTSE-100 World Index, FT Gold Mines Index, FT/NASA Int'l bond sv.

Chief price changes yesterday table with columns: Instrument, Change. Lists instruments like Frankfurt Dax, Nikkei 225, Paris CAC, London FTSE, etc.

Telefónica secures CRT stake

Consortium pays \$656m for 35% of Brazilian telecoms company

By Geoff Dyer and Jonathan Wheatley in São Paulo and Tom Burns in Madrid A consortium including Telefónica Internacional of Spain became the first foreign group to take an operating stake in Brazilian public telephony yesterday when it bought 35 per cent of CRT, an operator in the southern state of Rio Grande do Sul.

which also includes local investment group RES Participações, Citicorp of the US and operators CTC of Chile and Telefonía de Argentina, beat a rival bid from a consortium including Siat of Italy. Telefónica's bid was 54.8 per cent higher than the minimum sale price of \$444m. Operating control of CRT will be shared between the Telefónica consortium and the state government.

of the industry will start next year. It sent legislation to Congress last week setting out its plans which include the break up of Telebrás, the public holding company, into four regional units, and the sale of subsidiaries such as Embratel, the long-distance operator. Mr Sérgio Motta, the communications minister, said each of the four regional companies - São Paulo, south, north-east and north - would be bigger than any other Latin American telecoms company.

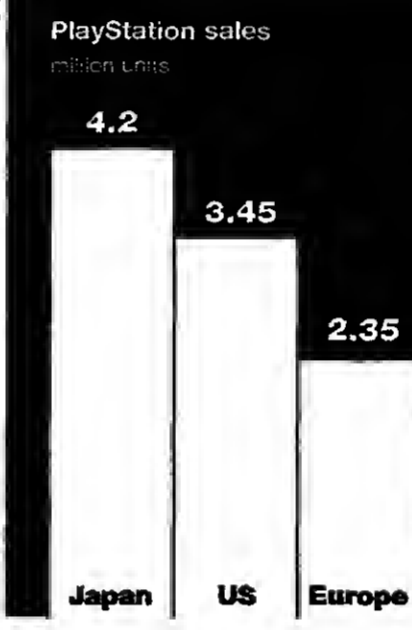
Goldman Sachs revenues reach record \$6.1bn

By Tracy Corrigan in New York Goldman Sachs, the largest investment bank partnership on Wall Street, yesterday reported record 1996 revenues, though profits fell just short of the high reached in 1993.

Goldman's strong performance, particularly in the fourth quarter, is likely to fuel expectations that some other US investment banks, most of which have a December year-end, will report record profits when they announce full-year results next month.

Goldman said bonuses announced to staff last week would not break records but added: "We were generous and I think our people are happy." However, its strong performance means its 300 partners will reap multi-million dollar rewards in years to come from the profits added to the firm's coffers.

Hitting the target



Lara's a winner for PlayStation

By Paul Taylor Lara Croft may not look or dress much like Santa Claus, but the acrobatic gun-toting heroine of Tomb Raider is helping turn Sony's PlayStation games console into one of the hottest electronics products this Christmas.

Worldwide sales figures will be considerably larger. Sony Computer Entertainment said this month that more than 10m PlayStation units had been sold so far, including 4.2m in Japan, 3.45m in the US and 2.35m in Europe.

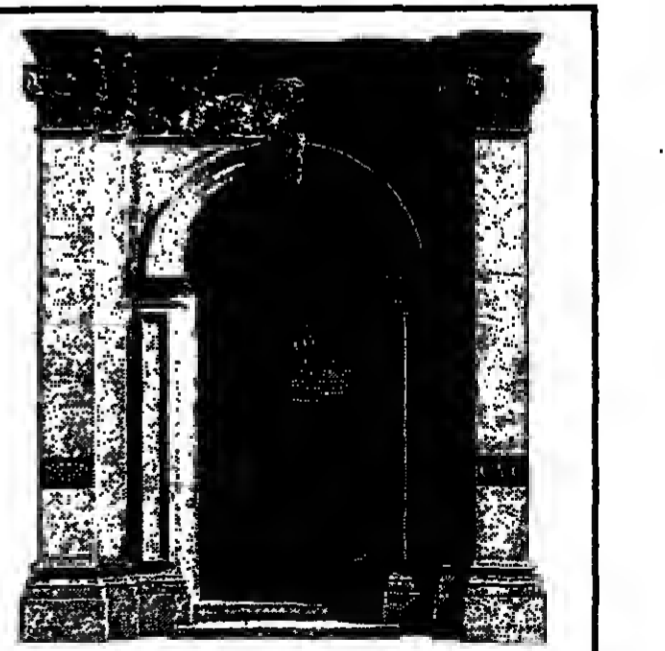
Barry Riley Rewards for straying beyond the fringe

Global bond managers have been light of dollar bonds and have spectacularly underweighted JGBs (quite a few had none at all through summer), though they have been close to neutral on the yen. The great feature of 1996, however, has been the opportunity to pick up extra return in peripheral markets - the riskier the better.

The great feature of 1996 has been the opportunity to pick up extra return in peripheral markets. The risk-seeking drive is a liquidity-driven phenomenon. In global markets the big markets are constrained by domestic value considerations, such as minimum actuarial requirements for yield, and it is difficult for US Treasury yields to be driven very far below 7 per cent, or bond yields much under 6 per cent.

Opening Doors to performance

For the fifth consecutive year CVC has been confirmed as the leader in continental European management buy-outs by KPMG Corporate Finance. With more than £1 billion under management and in excess of \$1 billion available for investment, CVC is one of Europe's most powerful buy-out houses.



CVC CAPITAL PARTNERS advertisement with contact information for Amsterdam, Frankfurt, Jersey, London, Madrid, Milan, Paris, Stockholm.

COMPANIES AND FINANCE: INTERNATIONAL

Skandia abandons Stadshypotek offer

By Greg McIvor in Stockholm
Skandia, the leading Nordic insurer, yesterday conceded defeat in its quest to merge with Stadshypotek...

(\$3.35bn) bid, Sweden's biggest cash offer. The announcement prompted the board of Stadshypotek and Sweden's small shareholders' association...

He said he had no regrets over Skandia's strategy of pre-empting the government's auction of a 34 per cent stake in Stadshypotek...

tek would have allowed Skandia to tap the mortgage bank's substantial capital reserves to fund expansion...

Separately, the Stockholm Stock Exchange said it would take no action against Stadshypotek over allegations that it had manipulated Skandia's share price...

Frontier shares fall on revenue warning

By Richard Waters in New York

Frontier, until recently one of the fastest-growing telephone companies in the US, yesterday became the latest casualty of the upheaval in the country's telecommunications markets...

INTERNATIONAL NEWS DIGEST

Baloise pulls out of three markets

Baloise, the Swiss insurer often seen as a takeover target, is taking a SF150m (US\$113m) write-down on its US insurance business and withdrawing from the insurance markets of Italy, France and Spain...

France Telecom eyes Spain

France Telecom yesterday became the first foreign operator to signal its willingness to enter Spain's basic telephony market and compete with Telefonos which it loses its monopoly next year...

Kuok unit plans closures

Kerry Securities, part of the empire controlled by Malaysian tycoon Mr Robert Kuok, is to close offices and axe staff as part of a about-turn in strategy to focus on serving wealthy individuals rather than institutions...

Kimberly-Clark sells mill

Alliance Forest Products, an aggressive eastern Canada newsprint producer, is buying Kimberly-Clark's Coosa Pines pulp and newsprint mill in Alabama for US\$600m...

Boeing merger dents spirit of St Louis

Whichever way you approach St Louis, Missouri, the most prominent feature of the skyline is likely to be the shimmering steel of the Gateway Arch, a soaring symbol of the city's hopes for the future...



Symbol of success: St Louis, with its famous Gateway Arch

St Louis has been closely associated with aviation since ballooning took off there in the early 19th century. An aeronautical competition was the highlight of the St Louis World's Fair of 1904...

brought his fledgling company plenty of work, and soon the McDonnell Aircraft Corporation expanded into the design and manufacture of jet fighters...

the marriage did not work out as planned; the civilian side was left behind by Boeing (and later, Europe's Airbus Industrie), while the military side was hit by the loss of some important contracts...

McDonnell Douglas remains St Louis' biggest private sector employer, with 23,000 workers. And the city yesterday was ready to look on the bright side of the takeover...

Douglas felt when we bought them, way back when," said an engineer. "Now we will all have on Boeing badges."

Richard Tomkins
The bottom line is, would we have preferred to be Seattle in this case? The answer is "yes," he says. "But we still have 21 Fortune 1000 based in the St Louis area, which is an extraordinary level for a community of its size."

News Corp turns down French move

By Raymond Snoddy

Mr Rupert Murdoch's News Corporation has turned down an opportunity to join a consortium in France about to launch a digital satellite service to compete with Canal Plus...

in the FPS consortium include TF1, the French television channel, France Telecom and the utilities group Lyonnaise des Eaux...

Broadcasting, the UK satellite venture in which News Corp holds 40 per cent.

A third consortium, the AB group of independent television production companies, is also planning to launch a digital satellite service in France...

All of these securities having been sold, this announcement appears as a matter of record only.



Biacore International AB

Global Offering of 5,750,000 Ordinary Shares in the form of Ordinary Shares or American Depositary Shares

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Global Coordinator Goldman Sachs International

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December 1996

Swiss Industry and Technology survey advertisement for Tuesday, February 4, 1997. Contact John Rofley at +41 22 731 1604.

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HMC MORTGAGE ASSETS advertisement for Mortgage Backed Floating Rate Notes.

RMS Residential Mortgage advertisement for Mortgage Backed Floating Rate Notes.

PERSONAL advertisement for Public Speaking training and coaching.

U.S. \$200,000,000 advertisement for Floating Rate Subordinated Notes Due 2000.

HSBC advertisement for Floating Rate Subordinated Notes Due 2000.

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Baloise pulls out of three markets

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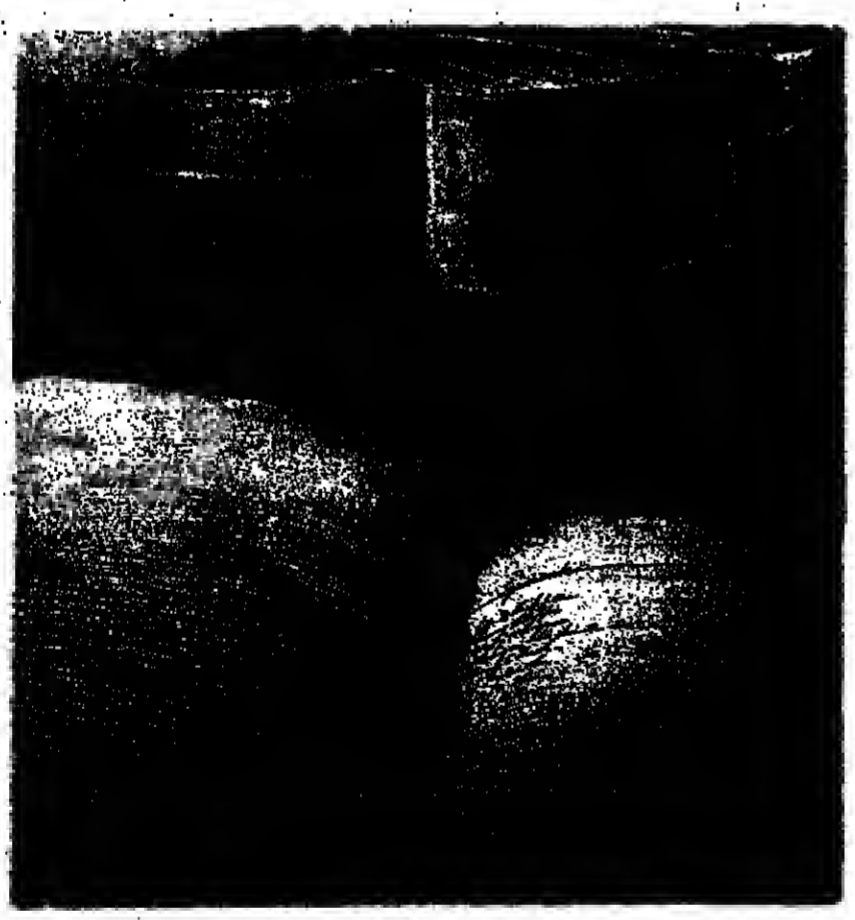
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*In equities*

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*More in 1896, more in 1996*



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COMPANIES AND FINANCE: INTERNATIONAL

# Posco willing to help rescue Sammi Steel

By John Burton  
in Seoul

Pohang Iron and Steel (Posco), South Korea's largest steel maker, yesterday said it may buy half the operations of Sammi Steel, the country's troubled leading speciality steel producer.

Sammi is offering Posco its special steel bar and seamless steel pipe businesses, which accounted for half its Won1,000bn (\$1.2bn) sales last year, to reduce its heavy debt burden.

Sammi's share price, which has

fallen recently because of speculation about its financial insolvency, rose 7.9 per cent in Seoul yesterday, from Won3,170 to Won3,420. Posco shares fell Won800 to Won35,700.

State-run Posco said it was willing to help rescue Sammi through the acquisition because the speciality steel sector was an important supplier to key industries, including car companies. If it went bankrupt, the national economy would suffer.

Sammi is Korea's largest speciality steel producer, with total

production capacity of 1.5m tonnes. Posco noted the Sammi divisions offered for sale had good profit prospects. The purchase price and other terms of the deal will be decided later.

Posco would not only take over one of Sammi's main plants in Changwon, South Korea, but also its two North American subsidiaries, Sammi Altas in Canada and Sammi Altech in the US.

Sammi would retain control of its cold-rolled stainless steel sheet operations, its main business. Although Sammi sales rose 32

per cent last year on the back of strong demand for stainless steel products, it reported a net loss of Won39bn because of debt payments.

Sammi invested heavily in the early 1990s in purchasing the North American plants and importing an electric furnace facility.

However, it suffered a financial squeeze because of sluggish demand until 1995, with its debts rising to Won1,000bn.

Posco's involvement amounts to a state rescue of Sammi. The South Korean finance ministry, which is

a main shareholder of Posco, has intervened before when it looked as if Sammi was collapsing.

The finance ministry arranged an emergency loan package for Sammi in 1992, when it seemed to be headed for bankruptcy after creditors initially refused to lend it more money.

Besides the industrial strategic importance of Sammi, its bankruptcy now would further undermine a weak Seoul stock market. It could also damage the image of Korean corporate borrowers in overseas markets.

# Telefónica takes on liberalisation challenge

Spanish telecoms group must prepare for opening up of domestic market, writes Alan Cane

Telefónica, Spain's national telephone company, bears out analysts' arguments that the best value in quoted telecommunications companies is currently to be found around the Mediterranean.

The final stage in the privatisation of the company is expected next February, when the government's remaining 20 per cent holding will be on offer, with the smaller, domestic investor the chief target.

Its performance in the past few years virtually guarantees the success of the offering. The group's overall strategy, however, is under the microscope after the appointment this year of a new, young chief executive without telecoms experience, Mr Juan Villalonga.

His most controversial move to date has been the decision to set up what some see as a risky digital television joint venture with the German Kirch group, involving an investment of more than \$1bn.

The group's financials, however, are robust, underpinning its spectacular share price improvement. From January to September 1996, revenues grew to \$11.48bn, an improvement of 13.3 per cent over the previous year, helped by a rise in cell-phone revenues and falling domestic interest rates. Income before tax grew 24.4 per cent to \$955.2m. Net income per share, at \$1, rose 19.8 per cent.

The performance of the group's shares has been equally impressive. Closing at Ft2,836 yesterday, the stock has risen about 80 per cent over its value at the beginning of the year. Analysts estimate a price/earnings ratio of 14 for 1997, compared with 10.94 for British Telecom, 11.1 for KPN of the Netherlands, and 13 for Portugal Telecom.

The results are the signs of a transformation at the company which has seen the average waiting time for line installation reduced to about three days this year from 100 in 1993, and the average time for a line to be repaired fall from 18 hours to 12 hours over the same period.

The group still enjoys monopoly profits and has been using them to make ample provisions for redundancies - 11,000 job cuts are planned by 2000 - and for substantial expenditure on marketing. International charges have been reduced by 25 per cent in the first stages of "rebalancing" long distance and local call charges.

Much of the credit for these reforms must go to Mr Villalonga's predecessor, Mr Cándido Velázquez, who was replaced after the change of government in Spain earlier this year.

However, Mr Villalonga, appointed chairman and chief executive in June, is not an obvious candidate for the role. Aged 43, and with no direct experience of tele-

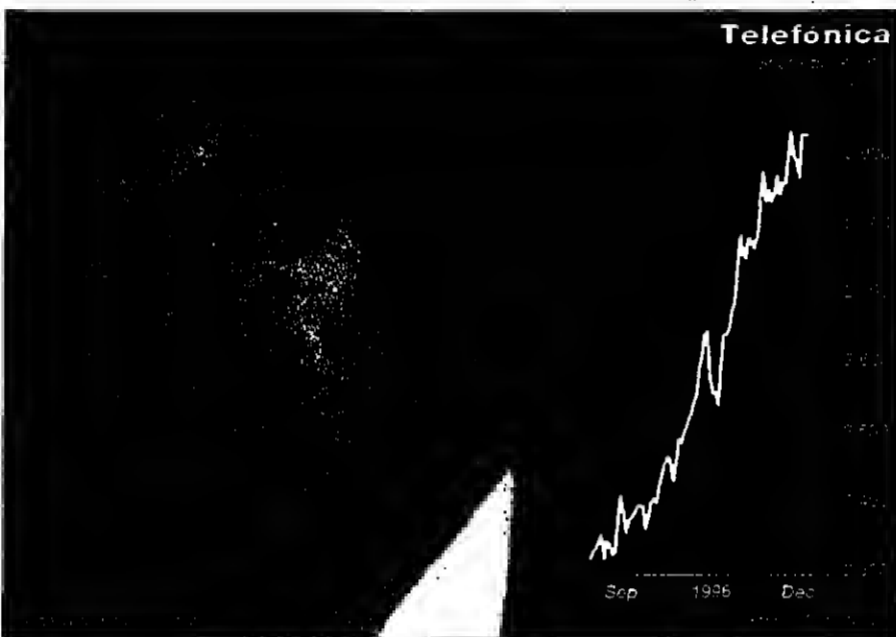
coms, he came to Telefónica from Bankers Trust, where he was head of operations in Spain and Portugal.

He is also a close friend of Mr José María Aznar, the Spanish prime minister, whose government has now agreed to liberalise the country's telecoms market on January 1 1998, in line with the rest of the European Union. Mr Villalonga's task is to define and strengthen Telefónica's position in a changing telecoms environment. "We will become a globally competitive operator with a leading position in the Spanish-speaking world," he says.

The first challenge will be to sustain growth and profitability in the face of increasing competition after 1998.

Mr Villalonga accepts the group will lose market share in the long distance and international markets, where its rates are expensive by European standards. He believes, however, that it will find less competition in the local market, where it owns the local loop.

Call charges will undoubtedly fall as a consequence of competition and regulation, but an increase in volume will compensate, Mr Villalonga says. Spain, with only about 38 telephone lines per head of population compared with 45 in the UK, can clearly sustain reasonable growth.



Mr Douglas Wight, telecoms analyst with Salomon Brothers in London, concludes in a recent research note: "We believe investors can look forward to annual earnings growth over at least the next three years of 15 per cent plus, to annual operating cash flow growth in excess of 5 per cent, and to substantial free cash flow generation."

Much will depend, however, on the group's performance in international markets and in new product areas such as multimedia and digital television.

The other arm of Telefónica's international operations is its stake in Unisource, a European alliance of small telecoms operators linked to WorldPartners, an international alliance led by AT&T.

Mr Villalonga denies suggestions that the company's relationship with its Unisource partners is strained or that he is talking to other potential partners.

He notes, however, that "we have to learn to work together", and recognises the importance of the right management at Unisource. "They have to deliver; if they don't deliver, we will change them."

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INTERNATIONAL NEWS DIGEST

## Sydkraft buys Orebro Energi

The rapid consolidation of Sweden's energy market took another turn yesterday when Sydskraft, Sweden's largest independently-owned power supplier, announced the SKr2.3bn (\$387m) acquisition of Orebro Energi, a medium-sized municipal electricity provider.

Sydskraft said the deal would provide a springboard for expansion into central Sweden from its main base in the south of the country. Mr Göran Ahlström, Sydskraft chief executive, said Sydkraft's aim was to have a national presence after deregulation of the Swedish power market in January. The company was one of four domestic energy suppliers which placed bids for Orebro Energi.

Orebro Energi made pre-tax profits last year of SKr160m on sales of around SKr1bn. Sydskraft's pre-tax profits were SKr1.5bn on turnover of SKr12.2bn. Sydkraft's shares rose SKr1.50 to SKr127.50 yesterday. Greg McIvor, Stockholm

## Santander in Colombia buy

Banco Santander said it has reached an agreement with Colombia's Grupo Bavaria to buy a 55 per cent stake in Bancoquia Commercial Antioqueño for \$450m.

Prior to the acquisition, Santander said Banco Commercial Antioqueño would acquire 100 per cent of Invercredit, Colombia's market leader in consumer loans, and sell its stake in the Confinorte investment bank, as well as its shares in other affiliates. After the merger with Invercredit, Banco Commercial Antioqueño would occupy fourth place in Colombia's private banking sector, with assets of \$1.68bn and \$277m of shareholders' funds, it said. AFP News, Madrid

## Indosat upbeat on profits

Indonesia's international telecommunications services provider PT Indonesian Satellite Corporation (Indosat) is projecting 1996 net income growth of 7 per cent to 9 per cent over 1995, Indosat's investor relations general manager, Mr Budi Prasetyo, told analysts yesterday.

Mr Prasetyo also said the company projected 1997 growth in net income and earnings per share of 12-14 per cent over 1996. Indosat posted net income of Rp459.43bn (\$196m) and earnings per share of Rp443.68 in January-December 1995. In the first nine months of 1996, the company reported a net income of Rp361.5bn, compared with Rp342.9bn in the same period of 1995. Reuters, Jakarta

## Growth slows at Wolford

Wolford, the Austrian maker of ladies' luxury tights, has seen a slowdown in growth in the first six months of its financial year. The group's net profits rose 9.4 per cent to Sch106.9m (\$9.62m), while turnover rose 6.5 per cent to Sch208.3m. In the same period last year turnover rose 28 per cent.

The company, whose shares have been the best performer on the Vienna stock market since they were quoted in February 1995, reported sales 134 per cent higher in the US, 51 per cent higher in the UK, 35 per cent higher in Scandinavia and 22 per cent higher in Italy.

This was offset by lower sales in Germany, Austria and France, which account for roughly two-thirds of Wolford's sales. Branded turnover, which accounts for more than 80 per cent of sales, rose 10 per cent. Staff numbers rose by 195, to 1,538, and the group plans to double its number of Wolford boutiques in the second half of the year by opening another 100 outlets. William Hall, Zurich



## TRW AND MAGNA INTERNATIONAL FORM VEHICLE SAFETY SYSTEMS ALLIANCE



TRW Inc. and Magna International Inc. jointly announce the formation of a strategic alliance for design, development and production of automotive products for the global market. Under the alliance, TRW will lead development efforts in occupant restraint systems, including air bags, seat belts, inflators, sensors and steering wheels, while Magna will focus on complete vehicle interiors and total body systems.

As part of this strategic alliance, TRW and Magna will form and operate a technical center that will focus on total vehicle safety system integration and will support both companies in the development of systems and components.



TRW will purchase from Magna, as part of the alliance, an 80 percent equity interest in two Magna-owned operations: MST Automotive GmbH Automobil-Sicherheitstechnik (MST), a European supplier of air bag modules, steering wheels and other related automotive components; and Temic Bayern-Chemie Airbag GmbH (TBCA), a European supplier of air bag inflators and propellants and related automotive components. Combined, MST/TBCA operations employ approximately 2,500 people.

Before the transaction with TRW is completed, Magna will purchase from Temic Telefunken Microelectronic GmbH the remaining equity interest not owned by it in MST and the majority equity interest not currently owned by it in TBCA. Once Magna has completed these purchases, it will immediately resell an 80 percent interest in the two companies to TRW. The transactions are subject to required regulatory approvals.



"The TRW-Magna joint technical center directly addresses system-oriented design challenges and customer needs," said Joseph T. Gorman, TRW chairman and chief executive officer. "It promises to deliver significant benefits by incorporating some of the best engineering and technology available globally and will provide complete interior and structural vehicle safety systems solutions. This alliance brings together suppliers well versed in the needs, practices and priorities of all the vehicle makers in the world. It represents a new level of cooperation between independent suppliers."

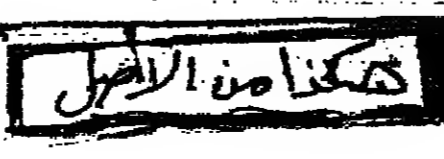
Magna president and chief executive officer, Don Walker, said, "In response to increased customer requirements for supplier cooperation and systems engineering assistance,

Magna and TRW have identified a number of opportunities to draw upon the complementary expertise of each company to serve better the needs of the customer, including reducing costs while enhancing performance. Customers will benefit from the joint support of the alliance's global engineering, manufacturing and distribution organization regardless of where the world's major automakers assemble their vehicles."

Frank Stronach, Magna chairman, and Gorman said the technical center is positioned to pursue the integration of seat belts and vehicle seating as well as to address the use of advanced electronics in vehicle interiors and body systems. This will generate new products that improve the safety performance of motor vehicles. The alliance will provide a high-quality, total-vehicle perspective on design and development with a systems emphasis.

Magna is a US \$5 billion automotive supplier, employing more than 35,000 employees in 120 manufacturing operations and 21 product development and engineering centers in 11 countries. Magna is one of the most diversified automotive suppliers in the world. Its products include exterior decorative systems; interior products, including seating systems, instrument and door panels; stamped and welded metal parts and assemblies; sunroofs; electromechanical devices and assemblies; and plastic body panels and fascias. In addition, through its recent acquisition of the Marley Automotive Components Group and the Douglas & Lomason Company, Magna has significantly increased its core interior panel and seating systems business.

TRW is a US \$10 billion company with headquarters in Cleveland, Ohio, that provides advanced technology products and services for the automotive, space and defense, and systems integration markets. It employs approximately 63,000 people in 27 countries. One of the largest independent automotive components suppliers in the world, TRW's automotive product lines (with US \$6.5 billion in worldwide sales and 44,500 employees) include air bag and seat belt systems; electronic safety and convenience systems; electrical and electronic components; steering and suspension systems; engineered fasteners and plastics; and engine components. TRW will produce more than 13 million air bags and more than 50 million seat belts in 1996.



Owens-Ill with Italia

HK news

Goldman money on

AN OVERVIEW OF THE CURRENT SITUATION IN THE MARKET

THE MARKET IS CURRENTLY EXPERIENCING A PERIOD OF HIGH VOLATILITY AND UNCERTAINTY. THIS IS DUE TO A VARIETY OF FACTORS, INCLUDING ECONOMIC GROWTH, INFLATION, AND INTEREST RATE MOVES.

AS A RESULT, INVESTORS ARE BEING CAUTIONED TO TAKE A PROCAUTIOUS APPROACH TO THEIR INVESTING DECISIONS.

THE FOLLOWING ARE SOME OF THE KEY FACTORS THAT ARE AFFECTING THE MARKET:

- ECONOMIC GROWTH IS SLOWING DOWN IN SEVERAL MAJOR ECONOMIES.
- INFLATION IS RISING IN SEVERAL COUNTRIES, LEADING TO INTEREST RATE HIKES.
- CURRENCY VALUES ARE FLUCTUATING WIDELY.

WE BELIEVE THAT THESE FACTORS WILL CONTINUE TO AFFECT THE MARKET IN THE NEAR FUTURE.

FOR MORE INFORMATION, PLEASE CONTACT US AT: [Phone Number]

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COMPANIES AND FINANCE: INTERNATIONAL

# Owens-Illinois expands with Italian acquisition

**By John Simkins in Milan**

Owens-Illinois, of the US, is set to become Europe's second largest manufacturer of glass containers after buying 76 per cent of shares in Avir, of Italy.

The US glass and plastic bottle maker will also launch a tender offer for the 21 per cent of shares quoted on the Milan stock market. Its Italian subsidiary is buying the other 3 per cent in private hands. The total cost is expected to be about \$580m, to be financed initially by bank borrowings.

Owens-Illinois said on Monday night it had agreed to buy the 76 per cent of Avir shares from the controlling Maderna and Ricciardi families, including the current chairman, Mr Natale

Maderna. Although Mr Franco Todisco, a member of the Maderna family, will become president of Avir, other family members will leave the management.

Avir, based in Milan, has about 50 per cent of the Italian market in glass containers. It has an annual turnover of about L1,100bn (\$718m) and had consolidated net profits in the year to the end of June of L105.1bn. Its main customers are producers of wine, beer, spirits and food, and it has 15 plants in Italy. It also has three plants in the Czech Republic, and two in Spain.

Owens-Illinois, which was advised on the deal by Morgan Stanley, operates in Poland, Hungary, Finland and Estonia, and has a subsidiary, United Glass, in the

UK. After buying Avir, its share of the European market will be second only to that of St Gobain of France, its main competitor worldwide.

On a multiple of approximately three times operating cash flow, the \$580m purchase price is regarded as valuing Avir fairly, considering that the Italian market has been showing slower growth and that the strengthening lira may affect exports.

The purchase is expected to be completed in the first quarter of next year. Owens-Illinois' International operations will then contribute 40 per cent of the company's total sales, up from 28 per cent last year. Since 1991 it has acquired eight glass container companies serving emerging markets.

# HK newspaper to close

**By John Ridding in Hong Kong**

Sing Tao Holdings, the Hong Kong publishing and media group, yesterday announced it would close its evening daily newspaper, citing falling circulation and advertising revenues.

According to Sing Tao, which also publishes a morning Chinese-language newspaper and an English-language daily, the move will save about HK\$50m (US\$6.46m) a year. In the year to the end of March, the group recorded a net loss of HK\$146.6m, against profits of HK\$286m the previous year.

The announcement marks the latest upheaval in the Hong Kong newspaper industry, which is emerging from a price war and which was hit last year by the high cost of newsprint. "It is a sign that management in the industry has become more concerned with efficiency", said Ms Cara Rio, media analyst at Merrill Lynch in Hong Kong.

Earlier this year, the Oriental Press group announced the closure of the English-language Eastern Express. Two Chinese-language dailies closed last year following the launch of a price war in which the Oriental Daily

News, the territory's biggest-selling newspaper, cut its price from HK\$5 to HK\$2.

Prices of the main newspapers have now returned to previous levels and the cost of newsprint is about 40 per cent lower than a year ago.

However, the Sing Tao Evening Post has failed to recover lost ground. A relaunch six months ago stabilised sales at about 20,000 copies, but there has been no increase in advertising revenues. "Accepting the forecast that the business will not improve, the board of directors decided to suspend publication", the company said.

# Goldman Sachs puts its money on diversification

**L**ike its feted market strategist Ms Abby Cohen - one of the rare souls on Wall Street who called this year's strong market rally - Goldman Sachs is still feeling bullish.

In 1997, Wall Street's largest partnership plans to increase staffing by up to 10 per cent, with a particular focus on building its Asian operations and developing its asset management business.

In an interview last week, Mr Jon Corzine, Goldman chairman, said the firm wanted "greater reach and scope" throughout its core businesses. "We feel our franchise is stretched" in the US and elsewhere, he added.

Goldman employs 9,000 staff worldwide, fewer than either of the other two leading US investment banks (Morgan Stanley has 11,500 employees; Merrill Lynch, with its brokerage business, substantially more). It cut back more aggressively than most after the mini-crash of 1994.

Goldman's biggest investment will be in developing its fund management business, which has nearly \$100bn of assets under management. Mr Corzine said he "will be disappointed if we don't double that in the next two years". In the past year, Goldman has bought CIN Management in the UK and Liberty Investment Management in the US. As well as

expanding its institutional business, Goldman also aims "to build a world-class mutual fund business".

The firm will also focus more attention on the developing Asian markets, where it is less well established than in Europe or the US. "Asia's high growth rates should drive a wealth of financial opportunities", believes Mr Corzine, who added that the appointment this year of "one of the most talented people at the firm [Mr John Thornton] to run the Asian business sends a real signal about the value we place on that region".

Prior to 1994, Goldman had said that 75 per cent of its focus in Asia (outside Japan) would be in China, but in retrospect "the pace of development probably didn't justify that", Mr Corzine admitted.

Mr Henry "Hank" Paulson, vice-chairman, said he had recently made a six-day trip to Delhi, Singapore, Beijing, Taipei and Hongkong, which illustrates the scope of the firm's interests in Asia outside Japan. Goldman will continue to operate the "hub and spoke" model which is the rule in Europe and America, where core activities such as research and corporate finance in London and New York feed local offices in continental Europe and Latin America. However, Frankfurt is already a

notable exception to this rule, due to the importance of the German economy, and there may be similar instances in Asia, Mr Paulson noted.

Commenting on recent reports that the firm is considering buying a bank in the US, Mr Corzine said that although such an acquisition is "not on the active agenda, we are reviewing the issue and looking for the best ways to maximise operational and capital efficiency". But he pointed out that the firm is already moving into areas traditionally associated with commercial banking business. Mr Corzine cited Goldman's shift into areas such as leveraged finance and junk bonds.

US investment banks have been facing growing competition and margin pressure from European universal banks and US commercial banks such as Chase Manhattan, which under current rules are allowed to make 25 per cent of their revenues from investment banking activities. Goldman's interest is limited to the wholesale banking business. Mr Corzine said.

According to Mr Paulson, Goldman has "really worked to build up some diversity" in its businesses. Next year, the spread will widen further.

Tracy Corrigan

**LEADING WOMEN'S SPORTSWEAR COMPANY FOR SALE**

**Orbit Industries, Inc.**, a nationally recognized manufacturer and importer of branded women's sportswear, is seeking indications of interest from potential purchasers of the Company.

For 35 years, the Company has provided its customers with high quality apparel at value price points and has had a consistent record of profitability throughout its history. The Company filed a voluntary petition under Chapter 11 of the Bankruptcy Code in June of 1996 and continues to operate its business and manage its property as a debtor in possession.

The Company has total assets of \$24 million, current order bookings of \$10 million and 1997 projected net sales of approximately \$50 million. The Company's key brand *Sweet Ticker* achieved \$50 million in sales in fiscal 1996. The Company's key customers include a number of major national retailers.

The minimum price for the Company is set at \$10 million and written offers must be submitted by 5:00 p.m. EST, Friday, January 10, 1997. Offers will be subject to the signing of a definitive contract, bankruptcy court approval, and other terms and conditions to be discussed. For more information please contact: Blair Jacobson at Butler, Chapman & Co., Inc., 609 Fifth Avenue, New York, New York 10017, Telephone: (212)508-0200, Telecopier: (212)508-0217.

**Ambroveneto International Bank Ltd**  
**US\$ 150,000,000 Floating Rate Notes due 2004**

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from December 17, 1996 to March 17, 1997 the Notes will carry an interest rate of 5.17578% per annum.

The Coupon Amount payable on the relevant Interest Payment Date, March 17, 1997 will be US\$ 15.44 per US\$ 1,000 principal amount of Note, US\$ 154.39 per US\$ 10,000 principal amount of Note and US\$ 1,543.85 per US\$ 100,000 principal amount of Note.

The Agent Bank  
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**BANK OF GREECE**  
**US\$500,000,000**  
**Floating rate notes 1998**

Notice is hereby given that the notes will bear interest at 6.25297% per annum for the period 18 December 1996 to 18 March 1997. Interest payable on 18 March 1997 per US\$1,000 note will amount to US\$15.73.

Agent: Morgan Guaranty Trust Company  
**JPMorgan**

# Novartis throws up clash of strategies

**Sales breakdown**

Novartis, the drugs company being created by the coming together of Basle-based rivals Ciba and Sandoz, has been presented as a merger of equals.

However, the centralised management put in place by Mr Marc Morst, outgoing chairman of Sandoz, increasingly appears to be winning out against Ciba's more devolved structure.

Mr Pierre Douaze, the ex-Ciba man who is now head of pharmaceuticals in the new organisation, and second most senior after Mr Alex Kraner, chairman, concedes there were flaws in Ciba's approach.

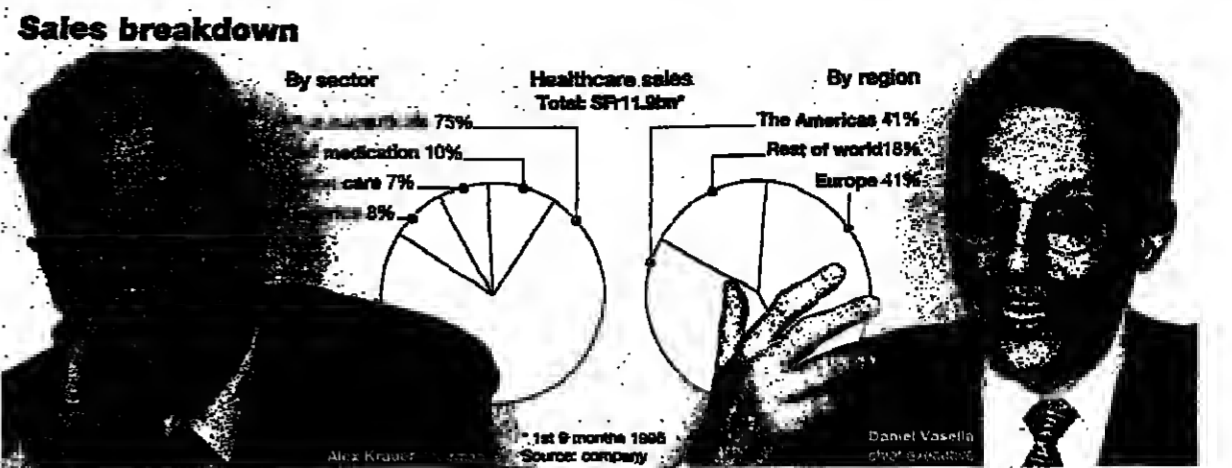
"Sandoz is more tightly managed," he says. "At Ciba there was too much empowerment and not enough control. Our decisions may have been better, but they were slower."

Sandoz has performed better as a result, he says, citing the way the company spun off its chemicals division in 1995.

Splitting chemicals and drugs businesses is standard practice, especially in the UK and US. Sandoz was one of the first continental European companies to take this step, but Ciba's divestment is coming only next year, and as a direct result of the merger.

"We became entangled with specialty chemicals, while Sandoz was willing to take drastic action," says Mr Douaze.

Mr Daniel Vasella, formerly chief executive of Sandoz pharmaceuticals division and now Novartis



chief executive, has little sympathy with the way Ciba worked.

"There was too much autonomy and they were loosely organised in their administration," he says. "There were too many paper shufflers who wrote reports no one read. More seriously, while top management's ideas might have been good, they were not always implemented."

With Ciba and Sandoz executives agreeing that the Sandoz way will be the Novartis way, more internal changes are imminent. Sandoz had a project management department whose role was to co-ordinate decisions made by others, while Ciba had project managers allocated to individual projects, with much more decision-making power. The Sandoz approach is being adopted at Novartis.

In the past Ciba's partnerships with biotechnology companies were cautious -

it took only a minority stake in California's Chiron, for example. Sandoz was more prepared to take control, as it did with US companies Genetic Therapy and Systemix.

The centralising of power in the hands of Novartis top management, combined with SF7.9bn (\$6.8bn) net cash in the new company, makes Mr Vasella one of the most powerful men in the global healthcare industry.

"We'll have a cash-generating machine, but we do not want to become a bank," says Mr Vasella in a clear reference to Roche, the other Basle drugs company, which manages its cash pile as a business.

So what will Novartis do with its money? Mr Vasella suggests two possibilities.

The first is over-the-counter (OTC) medicines. Many big drugs companies are looking to OTC to extend

the lives of their products after patents expire. Tagamet, for example, made by the UK's SmithKline Beecham, is a low-dose version of a prescription-only ulcer drug whose patent has expired.

Such consumer medicines account for just 10 per cent of Novartis sales, compared with 75 per cent for its pharmaceutical division.

The second possibility is to buy in products that are completing their clinical trials. Such drugs may have been invented by biotech companies, which lack a sales and marketing infrastructure, or by Japanese drugs companies, which usually licence their inventions to western drugs companies to sell outside Japan.

In the long term, there may also be divestments beyond the spin-off of Ciba's chemical arm next year, says Mr Vasella. But he may have to deal first with short-term problems.

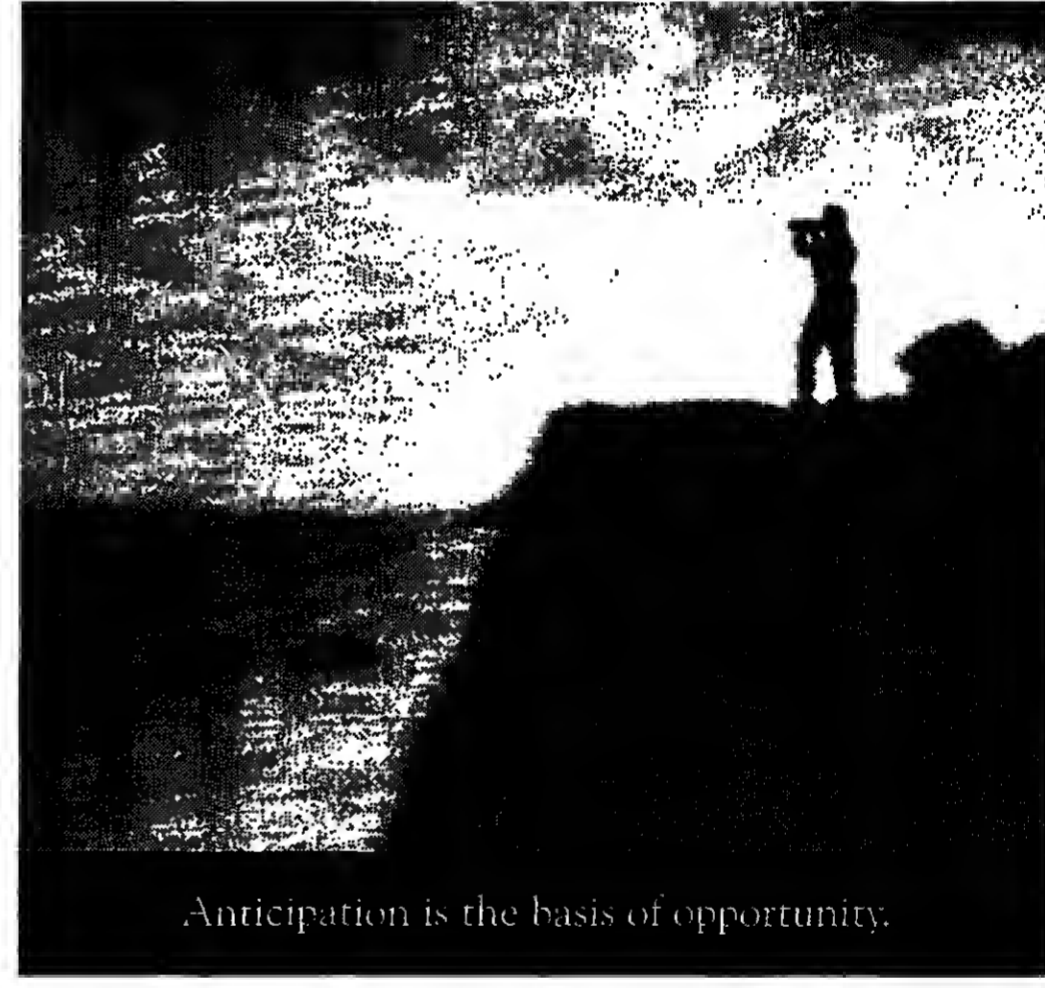
The performance of Ciba's drugs have been hit by the expiry of patents on Voltaren, the anti-inflammatory drug that is Ciba's best-selling product, with SF11bn in sales for the first nine months of 1996.

This can be compensated, says Mr Vasella, by rapid growth in sales of new drugs such as Diovan, a heart drug, and Lescol, which cuts cholesterol levels. This means expanding the sales force.

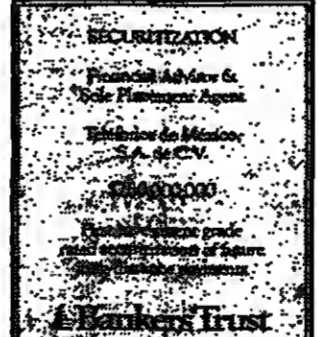
Mr Vasella has another reason to add staff during a merger in which 12,000 jobs are to be cut. "We have recruited 435 more sales people to the US," he says. "Why? It sends a message that creates confidence and stability in the workforce."

Mr Vasella may need his charm as well as his power to motivate a staff wary of the new orders emanating from the centre.

Daniel Green



Anticipation is the basis of opportunity.



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COMPANIES AND FINANCE: UK

Smaller engineers vulnerable to approaches

By Tim Burt

A surge in takeover activity among smaller engineering companies was predicted by some of the UK's leading institutional shareholders and investment banks following the launch yesterday of two hostile takeovers in the sector.

hardware company, and Fairey Group's £51.1m (£83.8m) offer for instruments manufacturer Burnfield signalled that acquisitive manufacturing companies were beginning to exploit falling valuations among smaller rivals.

PDFM, one of the largest investors in Newman Tonks, said: "There has been a switch to growth stocks away from the engineers, particularly those hit by the recent rise in sterling."

The fund manager, nevertheless, said it would be rejecting FKI's offer, claiming it did not fully reflect Newman Tonks' growth prospects.

One large investor in Newman Tonks said such companies were starting to look undervalued given the UK's robust 3% per cent growth forecast for GDP next year.

FKI and Fairey, which both have large overseas manufacturing interests, both cited the UK presence of their target companies as factors behind their offers.

Mr John Dean, of brokers Albert E Sharp, said: "A lot of companies are now waking up to the fact that with falling valuations and promising UK demand, they can stump up a bit of cash and get their targets."

Mr John Llewellyn-Lloyd, chief executive of Closa Brothers Corporate Finance, said: "More and more of these companies are looking vulnerable because their are finding it hard to make headway in a low inflation economy, and the strength of sterling is hampering their export efforts."

Ha also suggested that smaller engineering companies would be swallowed up in the move towards an international supplier base. Triplex Lloyd, the engineering bidding for castings group William Cook, has cited the need for international scale as a factor behind its £28m hostile offer.



Bob Beeston: criticises target's 'jam tomorrow' approach

FKI in hostile £198m bid for Newman Tonks

FKI, the acquisitive engineering group, yesterday launched its first hostile takeover by bidding £197.5m for Newman Tonks, Europe's largest architectural hardware company, writes Tim Burt.

FKI announced the bid after persuading M&G, Newman Tonks's largest institutional shareholder, to accept its offer. It is thought to be the first time the fund manager - normally a champion of existing management - has backed a predator at the outset of a bid.

It also announced a 2-for-13 rights issue, priced at 175p, to raise up to £152.4m to fund the cash alternative. FKI shares closed off 3 1/2p at 196 1/2p.

Fairey offers £51m for Burnfield

Fairey Group, the specialist engineering company, yesterday announced plans to expand its industrial electronics division by launching a £51.1m hostile bid for Burnfield, the measuring instruments manufacturer, writes Tim Burt.

The company warned, however, that it would only proceed if Burnfield abandoned its proposed £24m acquisition of LDS, a privately owned vibration equipment group. The 1-for-4 share offer values the target's stock at 145.5p and there is a cash alternative of 135p, underwritten by Charterhouse Bank.

The Minister of Finance of the Republic of Poland acting on behalf of the State Treasury pursuant to article 23 of the State-owned Enterprise Privatisation Act ratified on July 13, 1990 (Journal of Laws, Number 51, Item 298, including amendments made later) hereby extends an invitation to participate in negotiations pertaining to the sale of 6,260,240 shares of Bank Gdansk S.A., whose headquarters are located in Gdansk.

Eurotherm hits acquisition trail

By Jane Martinson

Eurotherm, the industrial controls manufacturer, said yesterday that it could spend between £50m and £100m (£164m) on acquisitions, as it unveiled annual results at the end of expectations.

The group also announced yesterday that the two remaining non-executive directors who had supported Mr Leonard would stand down at the February annual meeting.

Mr Hultman stressed the group would take its time spending its money. "We have walked away from about 20 opportunities in the past couple of years."

However, he called the group's £34m net cash at the period end its "biggest single problem". The current tough trading conditions should make also acquisitions more "affordable", he added.

Distribution arm lifts Securicor

By Motoko Rich

Strong growth in its distribution arm and a one-off gain in the insurance business helped Securicor offset falling full year profits in security, and losses on its communications side.

The group, which has a 40 per cent stake in Cellnet, the mobile telephone operator, yesterday reported a 8 per cent rise in pre-tax profits to £107.4m (£176m) in the year to September 30.

Mr Roger Wiggs, chief executive, said that since Securicor had been taken over by Securitas of Sweden the prices had "returned to normal and our customers are coming back".

Communications had losses of £4.5m (£2.6m profit) as the move towards consumer subscribers raised the group's bad debt profile - and the company incurred start-up costs on the merger of its radio communications division with Intek Diversified Corporation of the US.

T&N steps up quest for German acquisition

By Tim Burt

T&N, the motor components and specialist engineering group, yesterday stepped up its pursuit of Kolben Schmidt, the German pistons manufacturer, by extending its options over 24.99 per cent of the company.

The options, held on T&N's behalf by Commerzbank for the past two years, have been transferred to Metallbank, which has extended them until September 1997.

T&N said the bank was holding them on behalf of an undisclosed group of European investors. A further 25 per cent stake is expected to be transferred to another institution shortly, following Commerzbank's decision not to renew them at the end of this year.

It will cost T&N DM282.6m (£178.6m) to exercise the options, giving it a 50 per cent stake, if it wins approval for the takeover. Transferring the initial 24.99 per cent option is expected to cost T&N £5m.

Advertisement for Axiom Funds Management Corporation, Registration of Interest by Potential Purchasers. Includes details about the Superannuation Act 1996 and contact information for Baring Brothers Burrows & Co., Limited.

Table with columns: Investment Trusts, Turnover (£m), Pre-tax profit (£m), EPS (p), Current dividend (p), Date of payment, Dividends corresponding dividend, Total for year, Total for year.

Shares shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. \*10c increased capital. †Dividend making 5.3p (4.3p) so far.

Misys to buy Summit Systems

By Paul Taylor

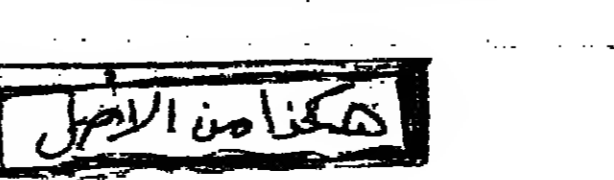
Misys, the largest UK-based software group, is to acquire Summit Systems, a financial derivatives trading software business based in New York.

The deal, part of Misys' strategy to push into the trading software market, is valued at \$60.5m.

The vendors are Finance Information et Technologie, of France, which holds a 31.6 per cent stake; Mr Jean de Fontenay, one of the founders of Summit who owns about a third; and an employee group owns the remainder.

Misys is also buying Finance Information et Technologie, and with it the 40 per cent of Quotient Systems, a French privately-owned software distributor, it does not already own.

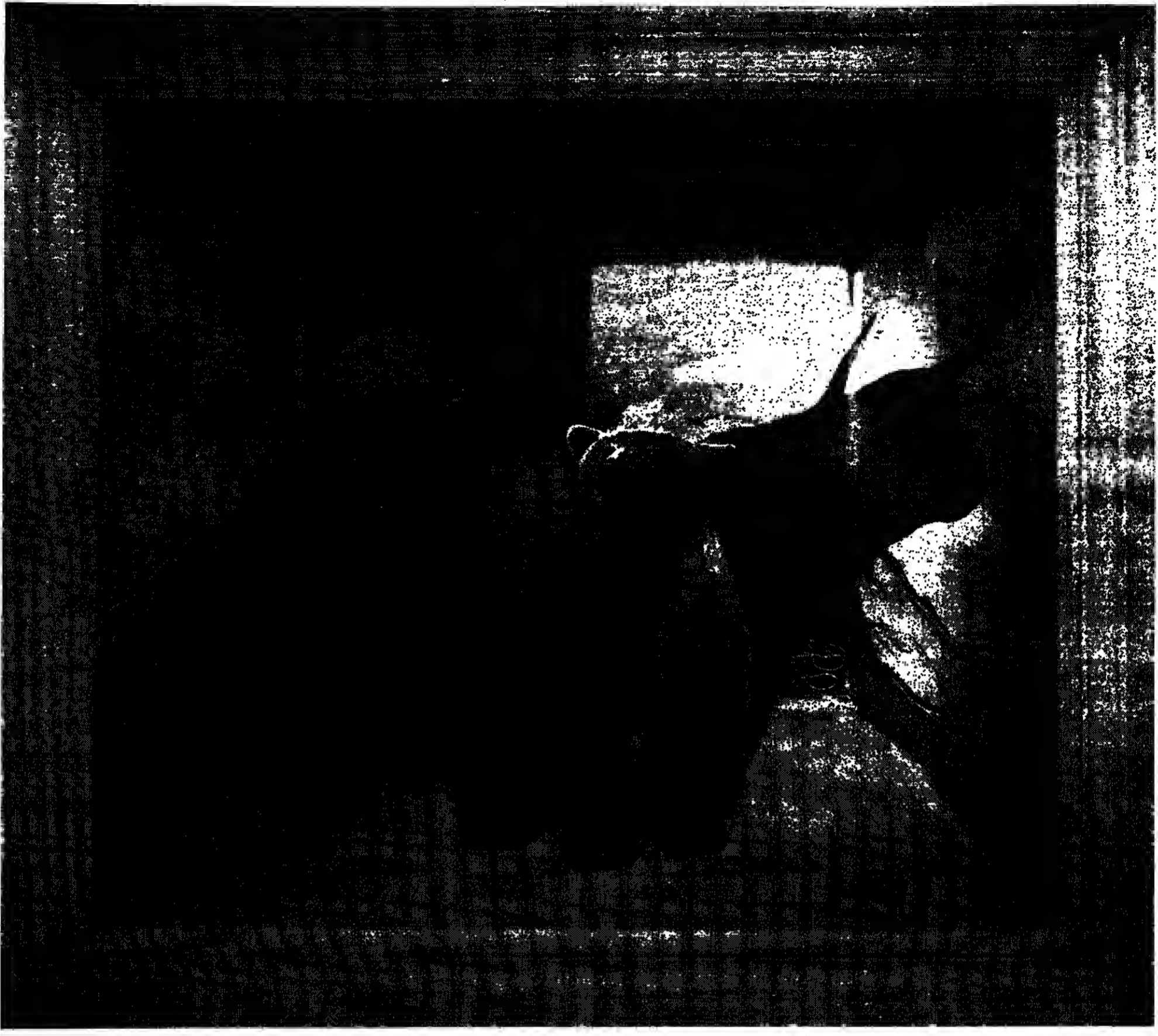
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Citigate Albert Frank

Signs of housing strength hit Treasuries

GOVERNMENT BONDS By Lisa Branstetter in New York and Richard Lapper in London Signs of stronger growth in the US housing sector pushed down bond prices in New York and dampened sentiment in most other markets...

Mr John Spinello, a government securities strategist at Merrill Lynch said there was to be an increase in activity after the Fed's announcement...

Among the "peripheral" markets, however, Sweden bucked the trend, with the local market buoyed by a further cut in the repo rate...

The Spanish market followed a similar pattern with the March 10-year futures contract settling at 110.81 down 0.70...

Mr Alex Cooper, manager at Tullett & Tokyo, said traders were watching Japanese yields particularly closely following the fall of yields to historic low levels earlier this month...

Shares in the company are due to start trading in Hong Kong today. The American Depository Shares, each representing eight shares, will make their debut in New York on Tuesday...

Bouygues in comeback with FF1.5bn offering

INTERNATIONAL BONDS By Samer Iskandar Bouygues, the French construction and telecommunications company, is making a comeback to the bond market after an absence of more than 12 years...

The deal was motivated by a squeeze on the existing bonds, with syndicate members reporting demand for the paper, after having sold their allotment...

Elsewhere, the International Finance Corporation launched its second issue of African denominated in South African rand...

Back in Europe, Credit Local de France tapped the Ecu sector with a retail-targeted Ecu100m deal...

Foreign-currency debt to AA- from AA-. The agency said its decision - which brings the rating in line with Moody's grade of Aa2 - reflects the government's progress in reducing its fiscal deficit...

Officials at SBC Warburg, the lead manager, said the issue was now likely to proceed early next year. Mr Euan Macdonald, chairman of SBC Warburg India, said there had been strong interest in the fund but that many investors could not commit until the new year...

WORLD BOND PRICES BENCHMARK GOVERNMENT BONDS Table with columns: Country, Coupon, Red Date, Price, Day's change, Yield, Week ago, Month ago. Includes Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, US Treasury, ECU, French Govt.

FTSE Actuaries Govt. Securities Table with columns: Price Index, Tse, Day's change, Mon, Accrued, Yld, 5-yr, 10-yr, 15-yr, 20-yr, 30-yr. Includes UK Gilts, FTSE Actuaries Govt. Securities.

UK Indices Table with columns: Index, Dec 18, Dec 17, Dec 16, Dec 15, Dec 14, Dec 13, Dec 12, Dec 11, Dec 10. Includes UK All-Share, UK 100, UK 250, UK 500, UK 1000, UK 2500, UK 5000, UK 10000, UK 25000, UK 50000, UK 100000.

US INTEREST RATES Treasury Bills and Bond Yields Table with columns: Rate, One month, Three month, Six month, One year, Two year, Three year, Five year, Ten year, Thirty year.

Spain NATIONAL SPANISH BOND FUTURES (MEXF) Table with columns: Open, Settle, Change, High, Low, Est. vol., Open Int.

FTISMA INTERNATIONAL BOND SERVICE Table with columns: Issued, Bid, Offer, Chg, Yield. Includes US DOLLAR STRATEGIES, EURO BOND STRATEGIES, JAPAN STRATEGIES.

France NATIONAL FRENCH BOND FUTURES (MATH) FF500,000 Table with columns: Open, Settle, Change, High, Low, Est. vol., Open Int.

Italy NATIONAL ITALIAN GOVT. BOND (ITF) FUTURES (LIFFE) Ita 200m 1000s of 100% Table with columns: Open, Settle, Change, High, Low, Est. vol., Open Int.

Germany NATIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 1000s of 100% Table with columns: Open, Settle, Change, High, Low, Est. vol., Open Int.

UK GILTS PRICES Table with columns: Issue, Yield, Price, 52 week, High, Low. Includes Short-term, Medium-term, Long-term.

Japan NATIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) ¥100m 1000s of 100% Table with columns: Open, Close, Change, High, Low, Est. vol., Open Int.

Other Fixed Interest Table with columns: Issue, Yield, Price, 52 week, High, Low. Includes Asian Govt, Euro Area, etc.

Table with columns: Issue, Yield, Price, 52 week, High, Low. Includes various international bond issues.

Table with columns: Issue, Yield, Price, 52 week, High, Low. Includes various international bond issues.

Table with columns: Issue, Yield, Price, 52 week, High, Low. Includes various international bond issues.

CAPITAL MARKETS NEWS DIGEST

APT Satellite cuts IPO price

APT Satellite Holdings's initial public offering has failed to spark enthusiasm among investors, forcing the Beijing-backed satellite operator to reduce its issue price to HK\$13.40 from a range of HK\$15.31-HK\$17.71...

India mutual fund postponed

India's first index-linked mutual fund, by Unit Trust of India, has been postponed because of depressed conditions on the Indian stock market...

Large advertisement on the right side of the page, partially obscured by a 'Dollar dip' graphic at the top. The ad contains various financial-related text and graphics.

Dollar dips on strong US housing starts data

MARKETS REPORT

By Simon Kuper

The dollar lost nearly a penny against the D-Mark yesterday, after robust US housing starts data caused a sell-off in US bonds and persuaded investors that the Federal Reserve might raise interest rates soon to slow the American economy.

The D-Mark closed 0.9 pence higher against the dollar in London yesterday at DM1.545.

The German currency was also buoyed by Mr Oskar Issing, Bundesbank chief economist, who told the Financial Times that the stability pact for European monetary union must be implemented strictly. That would stop Ecu member states from running loose fiscal policies, and would thus help make the future single European currency a hard one. Mr Kit Janda, currency strategist at NatWest Markets in London,

said Mr Issing's comments showed the Bundesbank was more hawkish than the German government in seeking strict conditions for Ecu.

Starting rose against both the dollar and the D-Mark, buoyed by continued belief that the UK would raise interest rates soon but that at the same time inflation was under control. Japanese investors continued buying the pound. It rose 1.1 cents against the dollar to \$1.673 and 0.3 pence against the D-Mark to DM2.555.

However these changes came amid thin trading as the currency markets continued. Mr Mark Goddard, analyst at C&A, said: "We're into pre-Christmas trading at the moment." Traders were also awaiting the outcome of the

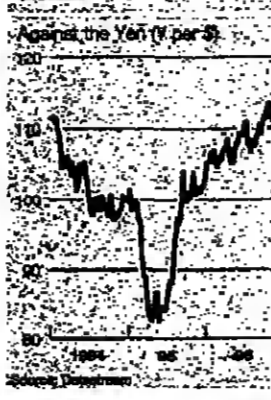
US Federal Open Markets Committee meeting after the London close. The FOMC left interest rates unchanged.

Both France and Sweden cut key rates. The Bank of France cut its intervention rate by 5 basis points to 3.15 per cent and its 5-to-10 day lending rate by 15 basis points to 4.60 per cent. But the French franc barely softened against the D-Mark.

The Riksbank, Sweden's central bank, reduced its repo rate for the 26th time this year, by 25 basis points to 4.1 per cent. The market had expected the move, and the krona fell only slightly against the D-Mark, from SKr4.296 to SKr4.414. The Riksbank also said Sweden's inflation outlook had improved since its September report. The bank now expects inflation rates of 1.5 per cent in 1997 and two per cent in 1998.

French and German policymakers yesterday

Against the Yen (Y per \$)



Against the Yen (Y per \$)

rejected French demands for a rate cut aimed at boosting the dollar. France thinks a fall in the franc would stimulate its economy. But it can only make very minor cuts to its own rates - as it did yesterday - unless the Bundesbank eases too. Otherwise the franc would cease tracking the D-Mark, and the Ecu process could collapse.

But although the Bundesbank yesterday seemed to exclude the option of a weaker D-Mark and French franc, Mr Jean Trichet, governor of the Bank of France, simultaneously called for exactly that. "It is possible that the market has a tendency to underestimate the underlying fundamentals of the dollar," he said, suggest-

ing that the US currency was undervalued. He said the Group of Seven industrialised nations should discuss the issue. But France would not appear to have the Bundesbank's backing.

There was more support yesterday for the view that most Japanese officials want the dollar weaker than Y114 to the yen. That support came after Mr Kabun Muto, director general of Japan's management and co-ordination agency, said to general surprise that the yen should be "slightly cheaper" than its present level to help Japanese industry. His comment sent the dollar above Y114. But other unnamed Japanese officials later said Mr Muto had been speaking on a personal basis, and the dollar lost Y0.3 on the day to close at Y113.7.

OTHER CURRENCIES

For the latest market update, ring FT Cityline on 0801 430003. See page 1 for call charges.

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Dec 17, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, Bank of England. Rows include Europe, Americas, Pacific/Asia, and various countries like Australia, Brazil, Canada, etc.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Dec 17, Closing mid-point, Change on day, Bid/offer spread, Day's bid/offer, One month, Three months, One year, J.P. Morgan. Rows include Europe, Americas, Pacific/Asia, and various countries like Australia, Brazil, Canada, etc.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table showing exchange rates for various currencies against the Dollar (D), D-Mark (DM), Yen (Y), etc. Columns include currency code, rate, and change.

UK INTEREST RATES

Table showing UK interest rates for various terms: 1 month, 3 months, 6 months, 9 months, 1 year.

EMERGENCY CURRENCY UNIT RATES

Table showing emergency currency unit rates for various currencies.

BASE LENDING RATES

Table showing base lending rates for various banks and currencies.

THREE MONTH STERLING FUTURES (LFFE) \$500,000 points of 100%

Table showing three-month sterling futures prices for various months.

SHORT STERLING OPTIONS (LFFE) \$500,000 points of 100%

Table showing short sterling options prices for various months.

THREE MONTH EURO-DOLLAR (EM) \$1m points of 100%

Table showing three-month Euro-dollar futures prices for various months.

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WORLD INTEREST RATES

MONEY RATES

Table showing money rates for various countries and currencies.

EURO CURRENCY INTEREST RATES

Table showing Euro currency interest rates for various countries and currencies.

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Advertisement for DONAU-BANK AKTIENGESELLSCHAFT. Features a logo with a 'D' in a circle and text: 'This announcement appears as a matter of record only.', 'U.S.\$80,000,000 Euro-commercial paper programme', 'Arranger Creditanstalt-Bankverein', 'Principal Dealers Creditanstalt-Bankverein CS First Boston Limited', 'CREDITANSTALT'.

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Table showing three-month Euro-dollar futures prices for various months.

COMMODITIES AND AGRICULTURE

Copper ends up as stock level surprises

MARKETS REPORT

By Deborah Hargreaves and Kenneth Gooding

Copper prices jumped briefly on the London Metal Exchange yesterday after a smaller than expected increase in exchange stocks was reported.

three months moved back above \$3,100 a tonne, but then subsided to end late trading \$14 up at \$2,055.

Analysts at Macquarie Equities pointed out that much of copper recently arrived in LME stocks was switched from New York's Comex warehouses, attracted by the LME's higher prices.

switching from Comex ends, LME stocks are likely to begin to decline again. The market could get extremely tight in the first quarter of 1997, they said.

The crude oil market weakened as some traders took profits following a steep rise in prices in late trading on Monday.

at \$23.52 a barrel. The market recovered later, but prices were volatile after a rise of \$1 a barrel on the London and New York markets late on Monday.

Reports of tankers loading up with Iraqi oil for the first time in six years yesterday were largely ignored by traders, who are still waiting to see its impact on consumers.

stocks as low as they are, you can't take any chances on supply disruption," said Mr Mohammed Abduljabbar, oil market analyst at Petroleum Finance Company in Washington.

Iraq was reported yesterday to have signed contracts with 12 companies in Turkey, US, France, Italy, Netherlands, Japan, Russia and Austria for deliveries over six months.

Chicago Mercantile Exchange moved up by the maximum amount allowed after stronger than expected US housing starts.

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Aluminum, Copper, Lead, Nickel, Zinc, Tin.

State moves to stop China's silk worm turning

Industry readjusting after years of oversupply and falling quality

Through war, famine, pestilence and plenty, China has been producing silk for more than 5,000 years. For much of that time producers have coped well with the vagaries of the market - until China's own recent economic reforms turned the industry upside down.

Relaxation of state controls on cultivation of mulberry trees and an explosion in the number of new processing plants has led to oversupply, the production of poor quality material, and a build-up of stocks - all resulting in a sharp fall in prices.

the main destinations for Chinese silk products. Another factor was what he described as "misleading information" about demand provided to producers of silk cocoons, the primary stage of production, which led to a threefold spread in the area of mulberry trees under cultivation between 1987 and 1995.

Such is China's importance to the world silk market - it accounts for 70 per cent of world consumption of raw silk - semi-finished and finished fabric - that difficulties in local production inevitably cause a ripple effect, with poor-quality products undermining confidence.

Concern about the industry prompted the formation this year of a special group under the State Council, or cabinet, to help restore order. The State Council, Silk and Satin Co-ordination Team was given ministerial status and charged with regulating the industry at every stage of production.

"The silk trade is so important both for China and the world that its rescue is imperative," the China Daily quoted Mr Yi Hui, director of the new team, as saying. In the first half of



Pried to clear: relaxation of state controls has led to over-production and market instability

this year silk exports were down 20 per cent, according to the newspaper. The disruption is serious for China, since labour-intensive raw silk cultivation and processing involves some 20m people, with production worth Yn1.4bn (\$1.7bn). Raw silk output accounts for about 75-80 per cent of the world total.

China exports the bulk of its production either in the form of raw silk, "grey" fabric (semi-finished product), or finished garments. Total value of silk exports in 1995

was down 17.7 per cent on the year before, to \$2.6bn. Cocoon exports dropped 58 per cent and silk garments were down 29 per cent.

Other measures adopted to stabilise the industry and improve the outlook for exports include the establishment of a new management system in producing areas to co-ordinate cultivation, processing, marketing and trade. The authorities have also set up trade offices in Japan and Hong Kong to improve "quantitative and qualitative controls", accord-

ing to Mr Chen of CNSIEC. Corrective measures, including closure of inefficient, low-technology mills, appear to be having an effect. At the Guangzhou trade fair in autumn, raw silk prices were up 10 per cent. Prices for "grey" fabric had stabilised after dropping over the past two years.

A reduction of about 30-35 per cent in cocoon production, along with the weeding out of poor-quality producers, have also helped to restore stability.

Mr Chen expects total exports this year of all silk products to be about the same as last year. A CNSIEC report says the corporation is "cautiously optimistic about the international silk market in 1996".

Mr Chen says that not enough has been done to promote silk's special properties. More work is also required to overcome what he describes as the fabric's two main obstacles: its image as a high-price fabric, and its tendency to cause

Bethan Hutton, Sydney

COMMODITIES NEWS DIGEST

Australia reduces export forecasts

The forecast value of Australia's commodity exports for 1996-97 was revised downwards to A\$83.9bn (US\$46.7bn) yesterday by the Australian Bureau of Agricultural and Resource Economics, the government forecasting body.

The estimate was down A\$900m from three months earlier, because of a continued decline in world commodity prices. However, it still represents a 2.5 per cent increase from the previous year.

The overall rise is largely attributed to mineral and energy exports, predicted to rise 4.5 per cent to A\$36.3bn, while exports of rural commodities are forecast to fall slightly, to A\$22.6bn, the bureau said in its report for the December quarter. Australia is expecting a bumper wheat crop this year, but the value of wheat exports is forecast to be about 9 per cent lower because of falling world wheat prices after the highs of 1995-96, and near-record world production.

Export earnings for beef and sugar are also forecast to decline, but will be partly offset by rising export values for wool and dairy products. Farm production is set to rise 7.6 per cent, continuing its recovery from the drought of two years ago.

The volume of wine exported is expected to grow to a record 164m litres, up 26.2 per cent from the previous year, with a value of A\$632m, up 34.8 per cent.

Bethan Hutton, Sydney

Greece awards oil licences

DEP-EKY, the state-owned Greek oil research company, has awarded four oil exploration licences in the country to UK and US companies, under new legislation designed to lift international oil companies' interest in Greece.

Enterprise Oil of the UK and Union Texas will invest in the north-west Peloponnese and the Epirus region from mid-1997. Triton Resources, of the US, will invest \$61m over the next four years in exploring an offshore block in the Patras Gulf and a nearby onshore block in Astolo-Achamania.

DEP-EKY, which has experience in offshore oil drilling in the northern Aegean, will take a 12 per cent stake in each concession area and provide equipment and research staff, the company said.

Kerim Hope, Athens

BHP and Japan agree prices

BHP, the Australian mining group, yesterday agreed coal prices and tonnages with Japanese Steel Mills for the year from April 1 1997. Prices for premium hard coking coal were higher, but those for lower quality coal fell. Volumes for both categories have increased, from 5m to 5.5m tonnes of hard coking coal, and from 4.7m to 5.5m tonnes of weak coking coal. Japan accounts for more than a quarter of BHP's coal production.

BHP yesterday reported increased first-half production in all its divisions except gas and steel. Coal production grew 15 per cent to 11.8m tonnes in the six months to November 1996; from one climbed 10 per cent to 27.3m tonnes, and copper concentrate was up 41 per cent to 362,000 tonnes.

Bethan Hutton

COMMODITIES PRICES

BASE METALS

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Aluminum, Copper, Lead, Nickel, Zinc, Tin.

Precious Metals continued

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Gold, Silver, Platinum, Palladium.

GRAINS AND OIL SEEDS

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Wheat, Corn, Soybeans, Barley.

SOFTS

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Coffee, Cocoa, Rubber.

MEAT AND LIVESTOCK

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Live Cattle, Lean Hogs, Pork Bellies.

JOTTER PAD

Market: The number of years that France has been ruled by men called Louis (Spread 10 years) Yesterday's answer: 70%

CROSSWORD

Word puzzle grid with 10 clues and a solution at the bottom. Clues include 'Set around a stately home', 'A union within which there's exemplary loyalty', etc.

ENERGY

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Crude Oil, Heating Oil, Gas Oil, Natural Gas.

PRECIOUS METALS

Table with columns: Commodity, Price Change, High, Low, Vol. Lists Gold, Silver, Platinum, Palladium.

FUTURES DATA

Table with columns: Contract, Price Change, High, Low, Vol. Lists Various futures contracts like Crude Oil, Natural Gas, etc.

INDICES

Table with columns: Index, Price Change, High, Low, Vol. Lists Various stock indices.



Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

FT Cytine Unit Trust Prices are available over the telephone. Call the FT Cytine Help Desk on (+44 171) 874 4378 for more details.

Main table containing financial data for various funds and insurance products, including columns for fund names, prices, and performance metrics.

Handwritten signature or stamp at the bottom center of the page.



FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 771) 873 4978 for more details.

Offshore Insurances and Other Funds

Main table of fund prices with columns for Fund Name, Price, and Change. Includes sections for Global, UK, and Offshore funds.

MANAGED FUNDS NOTES: Please see the notes on the previous page... This table shows the latest prices for all funds... The table is arranged in alphabetical order of fund name.

JAYCO LTD

Mikimoto advertisement featuring a diamond necklace and text: 'A HIGHLY DISCREET AND ELEGANT... DESIGNED PAIR OF CULTURED PEARL BROOCHES SET IN 18CT GOLD... MIKIMOTO 175 New Bond Street London W1Y 9PD Tel: 0171 629 5300'

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table with 2 columns: Company Name, Price/Value

BANKS, MERCHANT

Table with 2 columns: Company Name, Price/Value

BANKS, RETAIL

Table with 2 columns: Company Name, Price/Value

BREWERIES, PUBS & REST

Table with 2 columns: Company Name, Price/Value

BUILDING & CONSTRUCTION

Table with 2 columns: Company Name, Price/Value

BUILDING MATS & MERCHANTS

Table with 2 columns: Company Name, Price/Value

CHEMICALS

Table with 2 columns: Company Name, Price/Value

CHEMICALS - Cont.

Table with 2 columns: Company Name, Price/Value

DISTRIBUTORS

Table with 2 columns: Company Name, Price/Value

DIVERSIFIED INDUSTRIALS

Table with 2 columns: Company Name, Price/Value

ELECTRICITY

Table with 2 columns: Company Name, Price/Value

ELECTRONIC & ELECTRICAL EQPT

Table with 2 columns: Company Name, Price/Value

ENGINEERING, VEHICLES

Table with 2 columns: Company Name, Price/Value

EXTRACTIVE INDUSTRIES

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ENGINEERING

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EXTRACTIVE INDUSTRIES - Cont.

Table with 2 columns: Company Name, Price/Value

FOOD PRODUCERS

Table with 2 columns: Company Name, Price/Value

FOOD PRODUCERS - Cont.

Table with 2 columns: Company Name, Price/Value

GAS DISTRIBUTION

Table with 2 columns: Company Name, Price/Value

HEALTH CARE

Table with 2 columns: Company Name, Price/Value

HOUSEHOLD GOODS

Table with 2 columns: Company Name, Price/Value

HOUSEHOLD GOODS - Cont.

Table with 2 columns: Company Name, Price/Value

INSURANCE

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS - Cont.

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INVESTMENT TRUSTS

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INVESTMENT TRUSTS

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HOUSEHOLD GOODS - Cont.

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INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price/Value

PUT SOME COLOUR IN HER CHEEKS THIS CHRISTMAS.

This year, why not treat her to the unique taste of Laurent-Perrier, Britain's premier Rosé champagne?

You could win a case of Magnums by playing our competition in support of The Prince's Trust.

To enter, visit our pages on the FT website.

[www.ft.com/business/pt/ptak\\_on\\_plak/](http://www.ft.com/business/pt/ptak_on_plak/)



ENGINEERING - Cont.

Table with 2 columns: Company Name, Price/Value

ENGINEERING, VEHICLES

Table with 2 columns: Company Name, Price/Value

EXTRACTIVE INDUSTRIES

Table with 2 columns: Company Name, Price/Value

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FOOD PRODUCERS - Cont.

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HOUSEHOLD GOODS - Cont.

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INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price/Value

INVESTMENT TRUSTS

INVESTMENT COMPANIES

INSURANCE

HOTELS

INSURANCE

مكتبة النور

LONDON SHARE SERVICE

هكنا صالحي

BUY TRUSTS SPLIT CAPITAL - Cont.

Table listing Buy Trusts Split Capital with columns for Name, Price, and % Change.

LIFE ASSURANCE - Cont.

Table listing Life Assurance companies with columns for Name, Price, and % Change.

PAPER, PACKAGING & PRINTING - Cont.

Table listing Paper, Packaging & Printing companies with columns for Name, Price, and % Change.

RETAILERS, GENERAL

Table listing Retailers, General companies with columns for Name, Price, and % Change.

TEXTILES & APPAREL - Cont.

Table listing Textiles & Apparel companies with columns for Name, Price, and % Change.

AM - Cont.

Table listing AM companies with columns for Name, Price, and % Change.

OTHER INVESTMENT TRUSTS

Table listing Other Investment Trusts with columns for Name, Price, and % Change.

OIL EXPLORATION & PRODUCTION

Table listing Oil Exploration & Production companies with columns for Name, Price, and % Change.

INVESTMENT COMPANIES

Table listing Investment Companies with columns for Name, Price, and % Change.

OIL, INTEGRATED

Table listing Oil, Integrated companies with columns for Name, Price, and % Change.

PROPERTY

Table listing Property companies with columns for Name, Price, and % Change.

SUPPORT SERVICES

Table listing Support Services companies with columns for Name, Price, and % Change.

TRANSPORT

Table listing Transport companies with columns for Name, Price, and % Change.

AMERICANS

Table listing American companies with columns for Name, Price, and % Change.

CANADIANS

Table listing Canadian companies with columns for Name, Price, and % Change.

SOUTH AFRICANS

Table listing South African companies with columns for Name, Price, and % Change.

Advertisement for Mappin & Webb featuring a Rolex watch and the text 'THIS CHRISTMAS TELL HER YOU LOVE HER EVERY MINUTE.'

WATER

Table listing Water companies with columns for Name, Price, and % Change.

LEISURE & HOTELS

Table listing Leisure & Hotels companies with columns for Name, Price, and % Change.

OTHER FINANCIAL

Table listing Other Financial companies with columns for Name, Price, and % Change.

PROPERTY - Cont.

Table listing Property companies (continued) with columns for Name, Price, and % Change.

SUPPORT SERVICES - Cont.

Table listing Support Services companies (continued) with columns for Name, Price, and % Change.

AM

Table listing AM companies (continued) with columns for Name, Price, and % Change.

PAPER, PACKAGING & PRINTING

Table listing Paper, Packaging & Printing companies with columns for Name, Price, and % Change.

RETAILERS, FOOD

Table listing Retailers, Food companies with columns for Name, Price, and % Change.

TELECOMMUNICATIONS

Table listing Telecommunications companies with columns for Name, Price, and % Change.

TEXTILES & APPAREL

Table listing Textiles & Apparel companies with columns for Name, Price, and % Change.

LIFE ASSURANCE

Table listing Life Assurance companies with columns for Name, Price, and % Change.

GUIDE TO LONDON SHARE SERVICE
Notes for the London Share Service are published by Eikon, part of Reuters.
Company classifications are based on those used for the FTSE 100 Index.

LONDON STOCK EXCHANGE

Takeovers help to underpin equity market

MARKETS REPORT By Steve Thompson, UK Stock Market Editor

Textiles stocks in tatters

By Peter John and Joel Kibazo

srip on the 6,300 level. Driving the US market down on Monday was news that Morgan Stanley, one of the most powerful US investment banks, had chopped the equity weighting in its global model portfolio from 74 per cent to 56 per cent and upped cash from zero to 15 per cent.

Textiles stocks in tatters

The sector has been squeezed by vice-like margins as companies have been unable to force prices to retailers. Ms Joan D'Olier of NatWest Securities commented: "Until we can be certain that there are no more downgrades in the system, I think people will be very wary of the sector."

worryingly weak for the second consecutive session, the long bond sliding around three-quarters of a point shortly after the opening yesterday, after a similar fall on Monday. A 9.2 per cent jump in US housing starts in November was behind yesterday's retreat.

Textiles stocks in tatters

The selling pressure which made its presence felt in the leaders did not spill over into the second line and smaller stocks. The FTSE 250 index settled only 5p per share from 7p.

7.2 easier at 4,364.0 and the SmallCap finished a mere 0.3 off at 2,131.7.

Textiles stocks in tatters

Others said there was talk of a merger between General Accident and Citigroup, in addition to long-standing rumours of a move by Germany's Allianz or BAT Industries. GenAcc lifted 2 1/2 to 715 1/2.

Another feature was a burst of activity in British Steel, where a number of large blocks of shares were traded, apparently by the same marketmaker.

Textiles stocks in tatters

Shares in contract catering company Compass Group surrendered 8 to 613p, in active trading that brought volume to 12m, after French hotel group Accor placed 1.5 per cent of its 23.4 per cent holding in the UK company.

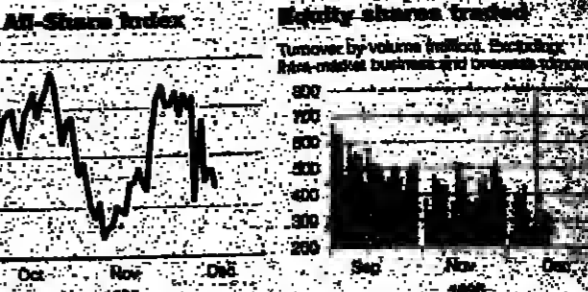


Table with columns for Index Name, Current Value, Change, and Worst performing sectors including Insurance, Water, Household Goods, Media, and Building & Const.

FUTURES AND OPTIONS table showing FTSE 100 INDEX FUTURES, FTSE 250 INDEX FUTURES, and EURO STYLE FTSE 100 INDEX OPTION prices.

TRADING VOLUME table listing Major Stocks Yesterday with columns for Vol, Change, and Days.

FT GOLD MINES INDEX table with columns for Dec, % chg, Dec, Year, Gold, % chg, P/E, Div, % chg, Total Return.

FT 30 INDEX table with columns for Dec 17, Dec 16, Dec 15, Dec 14, Dec 13, Dec 12, Dec 11, Yr ago, High, Low.

FT 30 HOURLY CHANGES table with columns for Time, High, Low, Close, High, Low, Close.

SEAO GAINS table with columns for Stock Name, Price, Change, and % Change.

FTSE AIM table with columns for Dec 17, Dec 16, Dec 15, Dec 14, Dec 13, Dec 12, Dec 11, Yr ago, High, Low.

London market data table with columns for Index Name, Value, Change, and % Change.

BERKELEY FUTURES LIMITED advertisement, 38 DOVER STREET, LONDON W1X 3RS.

Market Eye advertisement, FREephone 0800 321 321, FAX 0171 398 1001.

FAST 64 KBIT SATELLITE TECHNOLOGY advertisement, FOR COMPLETE REAL-TIME DATA OF THE US.

WAY TO KNOW A SECRET! advertisement, THE U.S. Securities with step by step.

SHARES - TAX FREE advertisement, 0171 896 0011.

FAST FILLS, LOW RATES advertisement, 0900-262-472.

OFFSHORE COMPANIES advertisement, 125 FINANCIAL SERVICES.

BOND TRUST OF THE WORLD advertisement, Fonds Commun de Placement / Luxembourg.

All Futures, Options & Margined Forex advertisement, Contact: James Allan.

Surges - Quickly! advertisement, How does that sound to you?

THE FT GUIDE TO WORLD CURRENCIES advertisement, published in Monday's newspaper.

INFORMATION ON THE FT TECH ANALYSIS PACKAGES advertisement, BROKERS/DATAPROVIDERS/ADVISORY SERVICES.

Your 'one stop' Brokerage connection advertisement, Futures, Options & Forex markets.

FTSE Actuaries Share Indices advertisement, Produced in conjunction with the Faculty and Institute of Actuaries.

UK Series advertisement, The UK Series.

FTSE 100 advertisement, 3879.8, -0.4, 3893.8.

FTSE 250 advertisement, 4264.0, -0.2, 4266.0.

FTSE 350 advertisement, 1877.3, -0.2, 1877.5.

FTSE Actuaries Industry Sectors advertisement, 10 MINERAL EXTRACTIONS.

Hourly movements advertisement, FTSE 100, FTSE 250, FTSE 350.

FTSE 350 Industry baskets advertisement, 1138.2, 1138.2, 1138.5.

Spread betting on over eighty markets advertisement, CITY INDEX.

Weekly Petroleum Argus advertisement, The unique source for oil industry news.

Signal advertisement, Real-time quotes, Forex data.

Weekly Petroleum Argus advertisement, The unique source for oil industry news.

Weekly Petroleum Argus advertisement, The unique source for oil industry news.

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Weekly Petroleum Argus advertisement, The unique source for oil industry news.



Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AMSTERDAM (Dec 17/Fri)

Table of stock prices for Amsterdam, including companies like ABN-Amro, Alcatel, and others.

BRUSSELS

(Dec 17/Fri)

Table of stock prices for Brussels, including companies like Alcatel, Belgacom, and others.

PARIS

(Dec 17/Fri)

Table of stock prices for Paris, including companies like Air France, Bouygues, and others.

BERLIN

(Dec 17/Fri)

Table of stock prices for Berlin, including companies like Deutsche Telekom, Linde, and others.

MILAN

(Dec 17/Fri)

Table of stock prices for Milan, including companies like Eni, Fiat, and others.

LONDON

(Dec 17/Fri)

Table of stock prices for London, including companies like British Airways, BT, and others.

STOCKHOLM

(Dec 17/Fri)

Table of stock prices for Stockholm, including companies like Ericsson, Volvo, and others.

COPENHAGEN

(Dec 17/Fri)

Table of stock prices for Copenhagen, including companies like Carlsberg, Danfoss, and others.

OSLO

(Dec 17/Fri)

Table of stock prices for Oslo, including companies like Aker, Elkem, and others.

ATHENS

(Dec 17/Fri)

Table of stock prices for Athens, including companies like National Bank, and others.

VIENNA

(Dec 17/Fri)

Table of stock prices for Vienna, including companies like Austrian Airlines, and others.

ZURICH

(Dec 17/Fri)

Table of stock prices for Zurich, including companies like Nestle, and others.

WARSAW

(Dec 17/Fri)

Table of stock prices for Warsaw, including companies like PKN, and others.

PRAGUE

(Dec 17/Fri)

Table of stock prices for Prague, including companies like Ceska Zbrojovka, and others.

BUDAPEST

(Dec 17/Fri)

Table of stock prices for Budapest, including companies like Magyar Telekom, and others.

BRNO

(Dec 17/Fri)

Table of stock prices for Brno, including companies like Brno Steel, and others.

VIENNA

(Dec 17/Fri)

Table of stock prices for Vienna, including companies like Austrian Airlines, and others.

VIENNA

(Dec 17/Fri)

Table of stock prices for Vienna, including companies like Austrian Airlines, and others.

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(Dec 17/Fri)

Table of stock prices for Vienna, including companies like Austrian Airlines, and others.

VIENNA

(Dec 17/Fri)

Table of stock prices for Vienna, including companies like Austrian Airlines, and others.

Rockwell GPS technology is helping customers as diverse as Governments, airlines, trucking fleets, farmers and fishermen.



INDICES

Table of various stock indices including Dow Jones, Nikkei, and others.

US INDICES

Table of US stock indices including Dow Jones, S&P 500, and others.

ASIA

Table of Asian stock indices including Nikkei, Hang Seng, and others.

AUSTRALIA

Table of Australian stock indices including All Ordinaries.

AFRICA

Table of African stock indices including Johannesburg.

INDEX FUTURES

Table of index futures contracts including S&P 500, Dow Jones, and others.

STOCKS

Table of individual stock prices and changes.

STOCKS

Table of individual stock prices and changes.

STOCKS

Table of individual stock prices and changes.

STOCKS

Table of individual stock prices and changes.

Handwritten note: JAVICO

FTSE

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'NEW YORK STOCK EXCHANGE PRICES', 'NASDAQ LISTED STOCKS', and 'NASDAQ LISTED STOCKS'.

Advertisement for Hewlett-Packard with the text 'If the business decisions are yours, the computer system should be ours.' and the HP logo.

Continued on next page

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4 pm close December 17

NYSE PRICES

Main NYSE PRICES table with columns for stock symbols, prices, and changes. Includes sub-sections for 'Continued from previous page', 'V', 'W', 'T', 'U', 'X-Y-Z', and 'FT First Annual Reports Service'.

NASDAQ NATIONAL MARKET

4 pm close December 17

Main NASDAQ NATIONAL MARKET table with columns for stock symbols, prices, and changes. Includes sub-sections for 'Continued from previous page', 'L', 'S', 'M', 'N', 'O', 'P', 'Q', 'R', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z', and 'FT First Annual Reports Service'.

AMEX PRICES

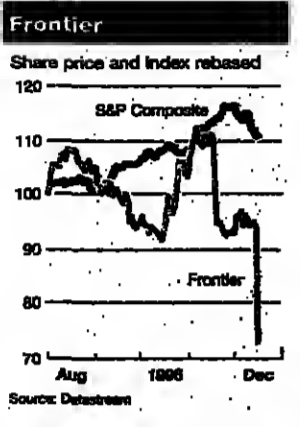
AMEX PRICES table with columns for stock symbols, prices, and changes.

Advertisement for 'Italy' featuring the text 'Have your FT hand delivered in Italy' and 'Gain the edge over your competitors by having the Financial Times delivered to your home or office every working day.' Includes contact information for Intercontinental Srl.

Dow eases as bonds fall sharply

US shares were modestly lower at mid-session as some technology shares bounced back from Monday's sharp sell-off and investors awaited news from the Federal Reserve's Open Market Committee meeting...

At 1 pm, the Dow Jones Industrial Average was 3.47 lower at 6,264.88 and the more broadly traded Standard & Poor's 500 gave up 0.22 at 720.76. NYSE volume was 280m shares.



Street expected the Fed to alter interest rate policy yesterday, but strong figures on new home construction sent bonds sharply lower in early trade.

Street expected the Fed to alter interest rate policy yesterday, but strong figures on new home construction sent bonds sharply lower in early trade. Near midday, the yield on the benchmark 30-year Treasury was at 6.674 per cent, its highest level since November 1.

Mexico City advances

MEXICO CITY recovered from initial losses to notch up modest gains at the end of a subdued morning's trading. At mid-session, the IPC index was 12.21 ahead at 3,187.30.

S Africa hit by futures selling

Traders in Johannesburg were hit by a wave of derivatives-driven selling as they returned from their three-day weekend.

Takeover talk lifts Frankfurt from trough

A revival of takeover talk at Commerzbank lifted FRANKFURT comfortably off its worst levels of the day.

Number three in the German banking league, Commerzbank pushed ahead against the trend as speculation ranged from the possibility of an outright bid for the bank or a strategic acquisition by Commerzbank itself.

At the close, the Dax index was 32.68 lower at an all-time low of 2,808.50. PARIS had a volatile session, recovering strongly from early losses on the news of official rate cuts but finally ending with the CAC

Further selling leaves Seoul near 45 month low

Further nervous selling took SEOUL down for a fifth consecutive session and left the composite index 10.57 weaker at 663.35, at its lowest level for almost 45 months.

Novartis takeover lifts Frankfurt from trough

Novartis. However, the pair turned back from their best levels after they confirmed that the US Federal Trade Commission had conditionally approved the merger.

AMSTERDAM took its cue from a dull bond market and moved lower in subdued volume. The AEX index unwound most of Monday's gains, ending off 3.18 at 612.94.

STOCKHOLM featured a 3.6 per cent fall in Scania, the truck maker, after its announcement, late on Monday.

Brussels seek to suspend trade privileges

Brussels seek to suspend trade privileges. The IMBK-100 index picked up 2,239.00 to close at a day's high of 90,386.98 on selective buying fuelled by a limited cash inflow.

OSLO fell 1.4 per cent, unharmed by the overnight fall on Wall Street and yesterday's US economic data. The total index finished 18.17 down at 920.03.

STOCKHOLM featured a 3.6 per cent fall in Scania, the truck maker, after its announcement, late on Monday.

Network Europe. Competence that knows no boundaries.

WestLB, one of Germany's leading banks, is firmly established on the European market, with branches, subsidiaries and agencies in all significant regions.

FT/S&P ACTUARIES WORLD INDICES

Table with columns for National and Regional Markets, US Dollar Index, and various indices for December 18, 1996. Includes sub-sections for EUROPE, SOUTH KOREA, and ASIA PACIFIC.

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Vertical advertisement for FI (Financial Institutions) featuring a portrait of a man and various headlines such as 'Brussels seek to suspend trade privileges' and 'Network Europe. Competence that knows no boundaries.'